



# **Ireland's Taxation System post COVID-19**

**Policy options**

**April 2020**



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## 1. Introduction

As we navigate through the global crisis caused by COVID-19, it is clear that tax policy will play a vital role both in the immediate Government response to support people and businesses, and in rebuilding our society and economy once the worst of the health impacts are contained.

The need for a broad, stable tax base that can collect the revenue required to support our social, economic and environmental goals has never been more apparent. This briefing will explore some options available to the new Government that would increase our overall tax take as a proportion of national income, broaden our tax base, and deliver a tax policy that would support our social and economic recovery and a new Social Contract.

### Tax landscape post COVID-19

Estimating the impact of COVID-19 on GDP and taxation remains highly speculative, but early estimates suggest that the impact on tax revenues is likely to be significant. The scenario set out in the Draft Stability Programme Update, published on the 21<sup>st</sup> April 2020, shows a potential fall in GDP of 10.5 per cent and a projected general Government deficit of €23 billion this year<sup>1</sup>. Total taxation revenue is set to decline by 16.4 per cent to €49.6 billion. This includes an estimated annual decline in income taxes of €4.7 billion, reductions in consumer spending resulting in an estimated decrease in VAT of €2.8 billion and excise of €0.8 billion on last year. Corporation tax receipts, which have resulted in windfalls for the Exchequer in previous years, are expected to decline by 6.5 per cent, a decrease of €0.7 billion on last year.

What we know from recent experience of the financial crash in 2008 is that it can take several years for tax revenues to return to where they were pre-crisis. The new Government will have an opportunity to reform and broaden our tax base and lay the foundations to increase our total tax take now to ensure we are well prepared to meet any future shocks. We have a once in a generation opportunity to build a new society, a new economy and a new country that reflects the lessons we have learned in recent weeks.

## 2. Learning the lessons from 2008

According to a recent report from the OECD, economies should anticipate that public expenditures on social benefits may have to remain high for a long period<sup>2</sup>. High public social-expenditure levels may contribute to fiscal consolidation pressures, in particular after public-debt levels will have risen during the initial reaction to the crisis. This points to the need for consolidated action at a European Union level to ensure that EU Member States are not saddled with the economic consequences of COVID-19 for decades to come. The OECD notes that after the 2008 financial crash some of the countries which were worst hit were forced to pro-cyclically reduce access to benefits or cut benefit levels to curb expenditures. This deprived vulnerable households from much-needed income support; and prevented social safety nets from effectively fulfilling their role as automatic stabilisers. Experience from the 2008 crash and aftermath shows that, while both the top and the bottom of the income distribution were severely affected in the crisis, the top income households recovered, while those at the bottom did not. We cannot afford to repeat the mistakes of the past.

The best way to boost tax revenue will be to support solid growth, including through sufficiently strong and sustained investment. We must learn from the lessons of 2008 where fiscal stimulus was too

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<sup>1</sup> <https://assets.gov.ie/73231/d8f437c20dc540c58f3e918e19937259.pdf>

<sup>2</sup> [https://read.oecd-ilibrary.org/view/?ref=128\\_128575-o6raktc0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis](https://read.oecd-ilibrary.org/view/?ref=128_128575-o6raktc0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis)

limited in many countries that had room to increase it, and turned contractionary too early, unnecessarily lengthening the crisis and worsening debt positions.

### 3. Ireland's tax take

Regardless of how it is measured, Ireland is a low-tax economy. *Social Justice Ireland* is of the view that a broadening of Ireland's tax-base will be required, together with an increase in the total tax-take towards the European average. These recommendations have also been reflected in the European Commission's Country Specific Recommendations for Ireland for the past number of years.

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. Ireland faces several significant challenges in the coming decades. In addition to the health, social and economic impacts of the COVID-19 pandemic, we also face challenges posed by demographic changes, social inequality – in housing and healthcare in particular – and climate change. These challenges and deficits existed before the current pandemic, and it should not need stating that such deficits cannot be closed without gradually increasing Ireland's tax-take towards the European average. As a country, if we are setting sustainable social, economic and environmental goals, it is important that taxation policy supports these goals. Ireland needs to have a real debate, not just about the levels of services and infrastructure it wishes to have in the coming decades, but also how these are to be financed.

### 4. Ireland's tax base

The need for a wider tax base is a lesson painfully learnt by Ireland during the recent economic crisis. The narrowness of the Irish tax base during the 1990s/2000s resulted in almost 25 per cent of tax revenues disappearing as the financial crisis hit, plunging the exchequer and the country into a series of fiscal policy crises. Our tax revenues collapsed from over €63bn in 2007 to a low of €47.4bn in 2010; they have since increased, exceeding 2007 levels in 2016 and reaching just over €74bn in 2018. This recovery, while both significant and remarkable, has also been fuelled by short-term windfall revenue from some multi-national companies. The European Commission in the recent Ireland Country Report 2020<sup>3</sup> noted that limited progress has been made on fiscal issues including broadening the tax base and limiting tax expenditures, and that recent measures introduced in Budget 2020 are not meaningfully contributing to broadening the tax base, with some increasing the scope for tax expenditure.

We now have an opportunity to learn from past mistakes and take steps to broaden our tax base so that we are better prepared for the task of rebuilding our society and economy and in making the changes needed to build a stronger, more inclusive Ireland. It is only through a strategic and determined effort to reform Ireland's taxation system that this can be achieved. The recent European Commission assessment on broadening the tax base shows we have significant scope for improvement and that there are many policy instruments available to us. The OECD points to tackling inefficient tax expenditures, and a focus on raising revenues from tax bases, that will be the least detrimental to growth, including recurrent taxes on immovable property and general consumption taxes as areas for Governments to consider for base broadening<sup>4</sup>.

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<sup>3</sup> [https://ec.europa.eu/info/sites/info/files/2020-european\\_semester\\_country-report-ireland\\_en.pdf](https://ec.europa.eu/info/sites/info/files/2020-european_semester_country-report-ireland_en.pdf)

<sup>4</sup> [https://read.oecd-ilibrary.org/view/?ref=128\\_128575-o6rakte0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis](https://read.oecd-ilibrary.org/view/?ref=128_128575-o6rakte0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis)

## 5. 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 productive 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.

We must explore all tax options available to us, including redesigning old tools, introducing new ones, and bolstering ongoing efforts to address the international tax challenges posed by the digitalisation of the economy. In the next section we explore policy options and some specific proposals available to the new Government in developing a tax policy to support our social and economic recovery and delivering a new Social Contract.

## 6. Policy proposals

### *Set a new tax take target*

*Social Justice Ireland* believes that, over the next few years, policy should focus on increasing Ireland's tax-take. The new Government should set a new target to increase the overall tax-take and set out a pathway outlining how they will reach this target by broadening the tax base, and what policies will be implemented to do so.

Previous benchmarks, set relative to the overall proportion of national income collected in taxation, have become redundant following recent revisions to Ireland's GDP and GNP levels as a result of the tax-minimising operations of a small number of large multinational firms. Consequently, an alternative benchmark is required. We propose a new tax take target set on a per-capita basis; an approach which minimises some of the distortionary effects that have emerged in recent years. Our target is calculated using CSO population data, ESRI population projections, and CSO and Department of Finance data on recent and future nominal overall taxation levels. The target is as follows:

***Ireland's overall level of taxation should reach a level equivalent to €15,000 per capita in 2017 terms. This target should increase each year in line with growth in GNI\*.***

This new tax take target that would see Government collecting an **additional €2.5bn to €3bn per annum** in taxation. This calculation is based on a more realistic estimation of Ireland's actual economic growth figures, as well as on per capita taxation numbers, population growth, and the estimated gap between Ireland's actual tax-take and the tax-take needed if Ireland is to provide a level of public services consistent with the expectations of a developed Western European democracy.

Increasing the overall tax take to this level would require a number of changes to the tax base and reforms to the current structure of the Irish taxation system. Increasing the overall taxation revenue to meet this new target would represent a small overall increase in taxation levels and one which is unlikely to have any significant negative impact on the economy.

### *Introduce a Minimum Effective Corporate Tax Rate*

The adequacy and fairness of corporate tax payments has been a recurring issue for a number of years. Despite a low headline rate (12.5%), there is limited data on the effective rate of corporate taxation in Ireland. A recent report from the Comptroller and Auditor General (C&AG) shed new light on this sector. Using the approach used by the Revenue Commissioners to calculate the effective tax rate (tax due as a % of taxable income) they found an overall effective corporate tax rate of 9.8% in 2016.

Among the top 100 corporate tax payers, who account for 70% of corporation tax paid, eight had a 0% or less rate, five paid between 0% and 1%, one paid between 1% and 5%, seven paid between 5% and 10%, while the remainder (79 firms) paid more than 10%. It is clear that a small number of very large firms are at the core of the tax adequacy issues in this sector.

In a post-COVID-19 environment, it is likely that addressing the tax challenges of the digitalisation of the economy and ensuring that MNCs pay a minimum level of tax will be of even greater importance. The OECD notes that rising pressure on public finances may strengthen the push for a minimum effective corporate tax rate and that there will be a need to ensure that there is a level playing field in the levels of effective taxation between major MNCs and SMEs who may suffer disproportionately from the crisis<sup>5</sup>. As the international tax landscape changes and there is a renewed focus on the international corporate tax system, the introduction of a minimum effective corporate tax rate would serve as another opportunity for Ireland to take a leadership role in implementing progressive moves relating to the international corporation tax system.

*Social Justice Ireland* believes that the issue of corporate tax contributions is principally one of fairness. Profitable firms with substantial income should make a contribution to society rather than pursue various schemes and methods to avoid these contributions. We propose the introduction of a Minimum Effective Corporate Tax Rate of 6 per cent with a pathway to move to 10 per cent over time subject to the outcomes of the ongoing OECD BEPS process.

#### *Provide an Annual Review of Tax Expenditures*

The next Government should commit to an annual review of Tax Expenditures to be presented to the Oireachtas as part of the Budgetary process. This review could be published as part of the Summer Economic Statement (or Spring Economic Statement) for discussion. Sunset clauses, the impact of each tax expenditure, their cost to the State in terms of revenue foregone, their impact, and the length of time that they have been in place should all form part of this report. Consideration of any additional tax expenditures should also be presented to the Oireachtas for debate and discussion in advance of any decision being made.

#### *Introduce Refundable Tax Credits*

Making PAYE and Personal income tax credits refundable would help make low-paid work more rewarding. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). The benefits from introducing this policy would go directly to those on the lowest incomes and it would help address the disincentives currently associated with low-paid employment.

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 continue to benefit from the tax credit as a reduction in their tax bill. Therefore, 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.

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<sup>5</sup> [https://read.oecd-ilibrary.org/view/?ref=128\\_128575-o6rakte0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis](https://read.oecd-ilibrary.org/view/?ref=128_128575-o6rakte0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis)

Full details of this proposal and how it would be administered are available in our study *Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits*.

### *Re-introduce a Windfall Gains Tax*

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. 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 1 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 1: Illustrative Examples of the Operation of an 80% Windfall Gain Tax on Rezoned Land**

| <b>Agricultural Land Value</b> | <b>Rezoned Value</b> | <b>Profit</b> | <b>Tax @ 80%</b> | <b>Post-Tax Profit</b> | <b>Profit as % Original Value</b> |
|--------------------------------|----------------------|---------------|------------------|------------------------|-----------------------------------|
| €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.

### *Replace the Local Property Tax with a Site Value Tax*

*Social Justice Ireland* believes that the Local Property Tax should be replaced by a Site Value Tax. A Site Value Tax (SVT) is a charge on the value of land (i.e. the value of the site), not taking into account any of the physical capital built on the land. It is a charge on the 'unimproved value of the land'. In this way, the charge is related to the value of the location. It is calculated as a percentage of the value of the site. This provides a fairer and more appropriate policy instrument than the current value-

based local property tax. It would lead to more efficient land use within the structure of social, environmental and economic goals embodied in planning and other legislation.

From an efficiency perspective, an SVT would be a major step toward securing the tax base as it could not move to any location providing greater tax reductions. It would also shift the tax incidence away from transaction taxes like stamp duty. An over-reliance on such taxes can make the tax base vulnerable as it is dependent on maintaining and increasing the scale of the transactions. An SVT would switch it instead to an immovable physical asset which is a much more secure base. It would have other efficiency impacts, such as encouraging the development of derelict sites, and disincentivising the holding of land to create artificial scarcity in order to increase its value.

### *Environment and sustainability*

The OECD notes that recovery policies provide opportunities to help attain environment-related objectives<sup>6</sup>. The use of tax incentives could support stronger environmental commitments and there is potential to phase out fossil fuel subsidies, whilst continuing to provide targeted relief for vulnerable households.

There should be a move by the next government to shift the burden of taxation, where possible, away from productive activity and onto activity which reduces social wellbeing. In this regards, there is ample scope for pursuing measures that would enhance sustainability whilst raising revenue for government, including levies on single-use coffee cups (which could raise approximately €100m in a full year) and the introduction of an Aggregate Levy of €2.50 per tonne (€75m in a full year) to encourage recycling of materials. In pursuing policies which further shift the burden of taxation from income tax to eco-taxes on the consumption of fuel and fertilisers, waste taxes and the removal of environmentally harmful subsidies (estimated at €4.1 billion per annum<sup>7</sup>), Government should minimise any negative impact on people with low incomes.

## **7. Conclusion**

Tax policy will contribute to covering the costs of the crisis and policy responses to it. As we look to the future and rebuilding our social and economic infrastructure our taxation system will have a key role to play both in terms of our overall tax take, and how it is structured. A Just Taxation system needs to be a key part of an overall policy package for a new Social Contract, a package which includes a vibrant economy, decent services and infrastructure, sustainability and good governance.

The proposals outlined in this briefing will have the combined impact of reforming the tax system by making it fairer, simpler, and broadening the tax base. This will contribute to raising the overall tax take in a modest, realistic and progressive manner.

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<sup>6</sup> [https://read.oecd-ilibrary.org/view/?ref=128\\_128575-o6raktc0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis](https://read.oecd-ilibrary.org/view/?ref=128_128575-o6raktc0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis)

<sup>7</sup>

[https://www.cso.ie/en/media/csoie/releasespublications/documents/rp/fossilfuelandsimilarsubsidies/Fossil\\_Fuel\\_and\\_Similar\\_Subsidies.pdf](https://www.cso.ie/en/media/csoie/releasespublications/documents/rp/fossilfuelandsimilarsubsidies/Fossil_Fuel_and_Similar_Subsidies.pdf)



**Social Justice Ireland** is an independent think-tank and justice advocacy organisation of that advances the lives of people and communities through providing independent social analysis and effective policy development to create a sustainable future for every member of society and for societies as a whole.



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