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SOCIAL JUSTICE IRELAND

Policy Briefing

Budget Choices

Austerity is not working for Ireland. Government has cut spending, raised taxes, increased unemployment, lowered wages, decimated services and allowed infrastructure to deteriorate on the understanding that austerity would lead to recovery.

Austerity, however, has been exposed as having an unsound academic basis, as being a failure in practice and as morally unethical because poor and middle-income people have borne an unfair share of its consequences.

What it has produced in practice is structural unemployment, rising poverty levels, a sustained child poverty problem, ongoing adult literacy challenges, high emigration, lengthening social housing waiting lists and declining physical and social infrastructure.

Government's austerity approach has, however, protected the rich at the expense of the rest of us.

In practice it has produced the single biggest transfer of resources from low and middle income people to the rich and powerful in Ireland's history.

The main beneficiaries of this transfer have been parts of the corporate sector (mostly multinationals) and wealthy individuals.

New Approach Needed

A new approach is needed. In this *Briefing* setting out fully-costed proposals for Budget 2014, *Social Justice Ireland* is proposing:

- No more cuts in expenditure (except where they flow from reforms and don't damage the social infrastructure).
- A maximum effective income tax rate of 45% (i.e. nobody would pay more than 45% of their earnings in income tax + social insurance + USC).
- A minimum effective corporation tax rate of 6% (i.e. no corporation would pay less than 6% of their profits in corporation tax).
- A reduction in borrowing of €3.1bn in 2014 as agreed with the 'troika'.
- A Financial Transactions Tax of 0.01%.
- A universal state pension.
- An increase of €5 a week in the PAYE tax credit and in the basic social welfare rates.
- A capital programme focused on developing physical and social infrastructure.
- Elimination of the fuel dyeing process for agricultural and industrial diesel.
- 20 further initiatives covering a wide range of policy areas.

In this *Briefing* we outline how all of our proposals can be financed while reducing borrowing by €3.1bn in 2014.

All our costings are based on Government calculations or reliable research.

A Budget along these lines in 2014 would be good for the economy, good for the vulnerable and good for Ireland. It would be fair and just and would be seen as such.

Inside this issue:

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

Ireland: Some Key Diagrams and Tables

These diagrams and tables offer some insights on various aspects of Ireland's economy and society. A more comprehensive assessment of these topics can be found in our annual Socio-Economic Review available online at *www.socialjustice.ie*

Chart 1: Ireland's GDP Growth, 1995-2014

Chart 2: Ireland's National Debt as % GDP 1980-2016

Chart 3: Unemployment in Ireland, 2000-2013 (000s)

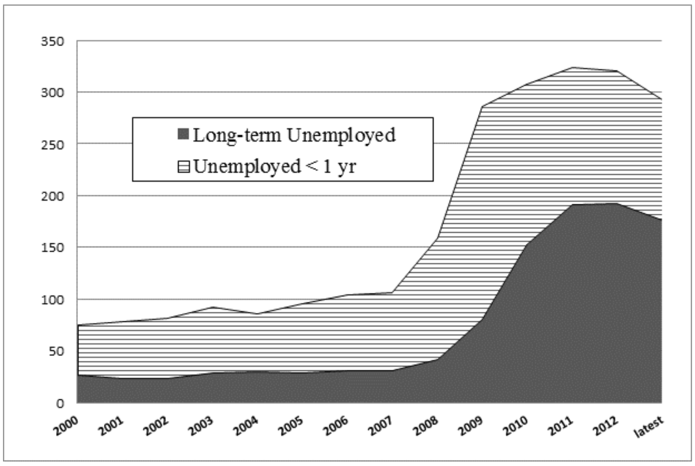
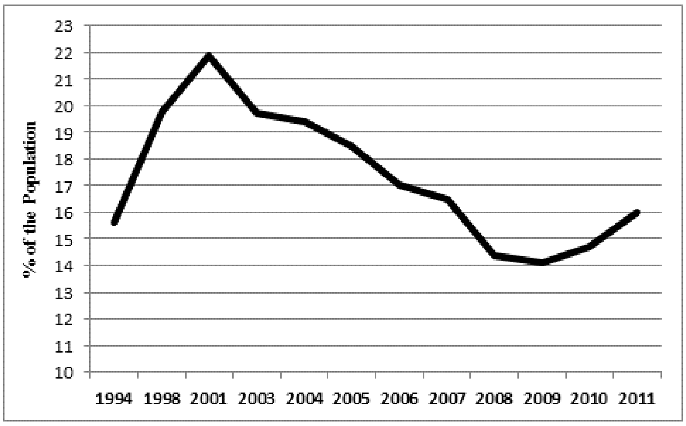


Table 1: Effective Taxation Rates for selected household types, 2000 / 2008 / 2013			
	2000	**2008**	**2013**
Single earner			
Gross Income €25,000	24.0%	8.3%	15.1%
Gross Income €60,000	37.7%	27.5%	33.9%
Couple 1 earner			
Gross Income €40,000	20.2%	9.4%	14.9%
Gross Income €60,000	29.0%	19.8%	26.6%
Couple 2 earners			
Gross Income €40,000	17.5%	3.6%	9.9%
Gross Income €100,000	35.9%	23.8%	30.2%

Table 2: The Minimum Weekly Disposable Income Required to Avoid Poverty in 2013		
Household containing:	**Weekly line**	**Annual line**
1 adult	€213.67	€11,141
1 adult + 1 child	€284.18	€14,818
1 adult + 2 children	€354.70	€18,495
1 adult + 3 children	€425.21	€22,172
2 adults	€354.70	€18,495
2 adults + 1 child	€425.21	€22,172
2 adults + 2 children	€495.72	€25,848
2 adults + 3 children	€566.23	€29,525
3 adults	€495.72	€25,848

Chart 4: % of Population at Risk of Poverty, 1994-2011



Data on this page is from: OECD *Economic Outlook*; Department of Finance *Stability Programme Update*, IMF *World Economic* Outlook, CSO *QNHS*, and CSO *SILC*.

The Social and Economic Context of Budget 2014

There are many aspects to the context for Budget 2014. Table 3 brings together a range of relevant data and indicators reflecting various aspects of Ireland's social and economic reality today.

The Budget is framed in the context of a stagnating Irish economy struggling to emerge from recession.

The background to that situation derives from four major economic factors that have significantly undermined the exchequer's finances and the economy:

- the collapse of the Irish construction sector and associated housing bubble;
- the collapse of the Irish banking system and the decision by government to effectively rescue all the major Irish financial institutions and engage in substantial borrowing to fund that rescue;
- an international economic slowdown associated with the 'credit crunch' in the United States and its international repercussions; and
- a failure at European level to address the nature and scale of the European debt crisis and to address it effectively.

Many commentators focus on the home grown factors i.e. the first two items above. However it is the latter two, i.e. the terms of Ireland's bailout from the IMF/EU/ECB and the sustained instability of the international economy, that play a central role in the context of Budget 2014.

The net result of these simultaneous events has seen a rapid increase in the national debt, the collapse of taxation revenues despite large increases in personal taxation and major cuts in government spending.

Ireland's overall tax take as a percentage of GDP at 31.3% is well below the European average of 35.6% and is projected to remain low up to 2016 and beyond (p.9). The Budget is also framed in the context of growing poverty levels; a sustained child poverty problem; on-going literacy challenges; very high unemployment; structural long-term unemployment; high emigration levels and lengthening social housing waiting lists. [For further details see our Socio Economic Review 2013.]

Table 3: Ireland's Social and Economic Position in 2014

Real GDP growth 2013*	1.3%	Minimum Wage (per hour / 39hr week)	€8.65 / €337.35
Real GDP growth 2014*	2.4%	Minimum Social Welfare Payment per week (1 adult)	€188.00
Real GNP growth 2013*	0.8%	Average Gross Household Income (2011)	€1,015 per week
Real GNP growth 2014*	1.8%	Average Disposable H-hold Income (2011)	€802 per week
2013 General Gov Balance (%GDP)*	-7.4%	Poverty line 1 Adult (week / year)	€213.67 / €11,141
Gross National Debt (%GDP) 2007	25.1%	Poverty line 2 Adults (week / year)	€354.70 / €18,495
Gross National Debt (%GDP) 2013*#	123.3%	Poverty line 1 Adult + 1 Child (week / year)	€284.18 / €14,818
Gross National Debt (%GDP) 2014*#	119.4%	Poverty line 2 A + 2 Children (week / year)	€495.72 / €25,848
Exchequer Capital Investment 2014 (2013)	€3.26bn (€3.38bn)	% of population living in poverty (numbers)	16.0% (731,984)
Total Taxation as % GDP 2013*	31.5%	% of children living in poverty (numbers)	18.8% (232,039)
%Tax on €25,000 income (single / 2 earners)	15.1% / 2.5%	LA Housing Waiting list - households	98,318
%Tax on €60,000 income (single / 2 earners)	33.9% / 17.7%	LA Housing Waiting list - persons	approx. 250,000
%Tax on €100,000 income (single / 2 earners)	41.4% / 30.2%	Illiteracy rate of adult population (1996 data)^	25%
Corporation Tax rate	12.5%	% Waste Landfilled + Recovered (2010)	90.6%
Capital Gain Tax rate	33%	Greenhouse Gas Emissions v. Kyoto target	-2.7%
Value of all Tax Reliefs (per annum)	€11.49 billion	Population 2011 Census	4,588,252
Labour Force	2,143,500	Population 2016 *	4.687m
Employment	1,848,900	Population 2021* / 2041*	4.884m / 5.077m
Unemployment 2013 /rate (ILO Basis)	306,000 / 14.2%	Inflation rate (CPI) 2013*	+1.3%
Emigration Irish Nationals (2008-2012)	149,700	Inflation rate (CPI) 2014*	+1.4%

Sources: ESRI *Quarterly Economic Commentary*, IMF *World Economic Outlook*, Department of Finance *Stability Programme Update, Budget documents*, Collins and Walsh (2010), CSO *QNHS*, CSO *SILC*, Department of Environment, Heritage and Local Government *Housing Statistics*, OECD *Literacy Survey*, EPA *National Waste Report*, CSO *Measuring Ireland's Progress*, CSO *Census 2011*, CSO *Population and Labour Force Projections, CSO Population and Migration Estimates* and Social Justice Ireland *Socio-Economic Review*. **Notes:** * = projection; # includes bank debt;^ = no data collected since

Choices Possible for Budget Adjustments: Troika

The general parameters of the Government's current plans for Budget 2014 have been set out in its agreement with the Troika (EU, ECB and IMF).

Overall, it requires a budgetary adjustment of at least €3.1 billion with €1.1 billion coming from additional taxation and €2 billion coming from reductions in public expenditure.

However, the Troika in their meetings with *Social Justice Ireland* have pointed out very strongly that the precise nature of budgetary adjustments, i.e. the split between expenditure reductions and taxation increases as well as the nature of these adjustments, is a matter for national policy.

What is required is that the cumulative effect of these adjustments should lead to a reduction in borrowing to –4.3% of GDP - as measured by the General Government Balance (GGB).

Government's discretion on the nature and composition of Budget 2014's adjustments is particularly important given regular statements by the Troika on the importance of the burden of adjustment being distributed fairly.

As *Social Justice Ireland* has continually pointed out, to date the burden has fallen hardest on those who could least afford to carry it - those who were very far removed from the banking and speculative gambles that were at the root of Ireland's economic crash.

It is time to move beyond rhetoric and ensure the burden of adjustment is distributed fairly

In that regard, throughout the rest of this document we outline a set of alternative policies government can choose in Budget 2014. These focus on shifting the balance towards an emphasis on additional tax increases (via the creation of a fairer taxation system) and reducing the focus on cuts to public expenditure - in particular given the cuts in this area to date and the dependence on these services of the most vulnerable in our society.

Fairer choices are feasible and possible in Budget 2014.

Table 4 sets out some key issues concerning Ireland's medium-term tax-take, why it has to rise, what level it should be set at and the base from which it should be drawn.

Table 4: Medium-Term Tax-Take in Ireland

Ireland's tax base is too narrow and total tax-take is too low if we are to finance the provision of infrastructure (e.g. transport, communications) and services (e.g. health, education, public pensions) at EU-average levels. 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.

Future Tax Needs

The national debt has risen from 25% of GDP in 2007 to about 122% in 2013 caused mainly by the need to borrow both to replace disappearing taxation revenues and to fund the rescue of banks. Servicing this debt costs more each year.

Using the National Pension Reserve Fund (NPRF) to fund various bank rescues (over €20 billion) has transferred the liability for future public sector pensions onto future exchequer expenditure which in turn will require tax increases.

Other decisions have already been made that will require increases in total tax-take. These include funding local government, modernising our water infrastructure, paying for future health and pension needs and paying EU contributions.

Increasing the *total* tax-take

Any country collecting less than 35% of GDP in taxation is a low-tax economy. The EU average is 35.6%. Yet Ireland's total tax-take hovers around the 31%. It should be raised to 34.9% of GDP by 2015.

Broadening the tax base

Social Justice Ireland believes there should be a broader tax base with different sectors paying their fair share of taxation. At present the corporate sector in particular does not pay a fair share despite its enormous profit levels. Whatever changes are made should also be guided by the need to build a fairer taxation system, one which adheres to our already stated core policy objective.

Much greater detail on these issues is available in our Socio-Economic Review 2013 pp. 47-57, 119-149 - accessible at www.socialjustice.ie

Source: IMF *Ninth Review under the Extended Arrangement (April, 2013)*

Carryover from Budget 2013

A feature of the requirements of the MOU is that the Government may count any additional revenues which derive from decisions taken in Budget 2013, but which have yet to be realised in additional income flows to the exchequer, as part of the 2014 revenue adjustment.

For example, such a situation arises as a result of a tax reform which yields lower additional revenues in its first year than in a 'full year'. In Budget 2013, the reform of PRSI yielded €286m in additional taxes in 2013 and will provide a 'full year' yield of an additional €53m (total €359m) in 2014. Similarly, the Budget 2013 introduction of the Local Property Tax provided additional revenue of €250m in 2013 and revenue of €500m in a full year, an additional €250m in 2014. The carryover effect can also be negative to the overall tax yield where for example a measure is announced in Budget 2013 and the tax cost (generally via a tax break) is given in the following year. Budget 2013's extension of the 3 year tax break for start-up companies imposed no additional tax revenue cost on the exchequer in 2013 but it will result in a decrease of €10m in the 2014 tax take. These and other additional yields/losses, the Budget 2013 carryover, are counted as part of the adjustment for Budget 2014.

Taken together, figures from the Department of Finance's *Summary of 2013 Budget Measures* suggest that the carryover effect for Budget 2014 will be €613m. As such, the Minister for Finance has, before he even begins to compile the Budget, achieved over 50% of the tax increases targeted by government.

The Future: A Guiding Vision and a Viable Framework

The economic crisis confronting Ireland in recent years is the result of the failure of an economic and social philosophy that exalted private greed above the common good.

The response to the crisis has been guided and underpinned by some of the mistaken assumptions of the Tiger Years. In this process many good, progressive social programmes introduced during the previous 20 years have been eroded or abandoned.

Social Justice Ireland believes that an alternative vision of Ireland's future is urgently needed. This vision should prioritise the common good and provide economic and social security for all the people of Ireland while ensuring that all policy decisions are focused on delivering a future that is sustainable economically, environmentally and socially.

Such a vision requires radically different policies from those pursued by Government and the IMF/EU/ECB. *Social Justice Ireland* has advocated such policies for many years.

A guiding vision

Ireland should be guided by a vision of becoming a just society in which human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected. The core values of such a society would be human dignity, equality, human rights, solidarity, sustainability and the pursuit of the common good.

There are many policy areas that are outside Ireland's control at the present time and this has contributed to a sense of helplessness amongst Irish people. However, even within the confines of the EU/IMF/ECB programme there are real choices to be made about the amount of resources that our health service and our welfare state should receive, the distribution of wealth and power in our society and the level of taxation required to furnish the resources necessary for a compassionate and civilised society.

A Framework for Solidarity and Sustainable Recovery

To move towards this vision of Ireland's future, five key policy areas must be addressed urgently. These are in the areas of macroeconomic stability, taxation, social security, governance and sustainability.

Below we set out a table showing some of the key issues on which action is urgently required under each of these five headings. We have developed these issues in some detail in a publication earlier this year (see box top right) and will not repeat all of that material here. However, we highlight a few of the key issues which have guided the proposals we make in this Policy Briefing.

- Ireland's total debt must be reduced i.e. the EU must honour its commitment on the banks.
- A major investment programme of sufficient scale to impact on domestic demand and unemployment must be implemented. (While this Briefing contains some parameters, we will publish a separate paper setting out our proposals on this area before the Budget.)
- Ireland must continue to move towards balancing its budget.
- Ireland's total tax-take (= all taxes + social insurance + charges + levies) is far below the EU average. It should be increased towards the EU average level.
- Poverty and inequality are widespread and must be addressed effectively.
- Promoting competitiveness and protecting the vulnerable must BOTH be prioritised.
- The social infrastructure must be protected; currently it is being eroded which will give rise to major problems in the short and medium term.
- Governance needs major reform. Our structures should be such that people's engagement would be enhanced at every level—rather than being eroded as is currently happening.
- Sustainability should be a central motif for economic, social and environmental policy development. Central to this is a recognition that all three dimensions are complementary and interdependent.
- All five parts of our proposed framework must be addressed simultaneously and in solidarity.

Further reading

*** The issues discussed on this page are developed at greater length and in much greater detail in Social Justice Ireland's annual Socio-Economic Review for 2013 entitled: ***What Would Real Recovery Look Like?*** Especially pp. 66-81.

The full text may be accessed, free of charge, at www.socialjustice.ie

A Framework for Solidarity and Sustainable Recovery to guide Budget 2014

1. Ensure Macroeconomic Stability	2. Move Towards Just Taxation	3. Enhance Social Protection	4. Reform Governance	5. Create a Sustainable Ireland
Reduce Ireland's debt burden	Bring tax-take to European average	Protect services by adjusting deficit reduction	Reform policy evaluation	Combat climate change
Financial and fiscal stability	Increase tax level equitably	Combat unemployment	Develop a rights-based approach	Balanced regional development
Investment programme	Reduce income inequality	Reduce poverty	Promote social dialogue	Indicators of progress and wellbeing

Ireland's Debt Burden and Budget 2014

The most recent data on the scale and composition of Ireland's national debt is presented in chart 5. It shows that at the end of 2012, the national debt had climbed to a total of €192bn (117% GDP).

The contrast with the period before the recession is stark; in 2007 the national debt stood at €47bn (25% of GDP). Throughout the economic crisis, debt has been driven up by: (i) borrowing to fund differences between government spending and tax revenues; and (ii) the cost of the various bank bailouts.

An insight into the impact of the banking collapse on Government finances has been provided by a recent CSO examination of General Government Net Worth (April 2013). As chart 6 shows, over the period from the beginning of 2009 to the end of 2012, General Government Net Worth declined by €124bn, from + €46.7bn to - €77.3bn. Of this decline, 37.5% or €46.5bn, is attributable to the impact of the various 'bank interventions' over that period.

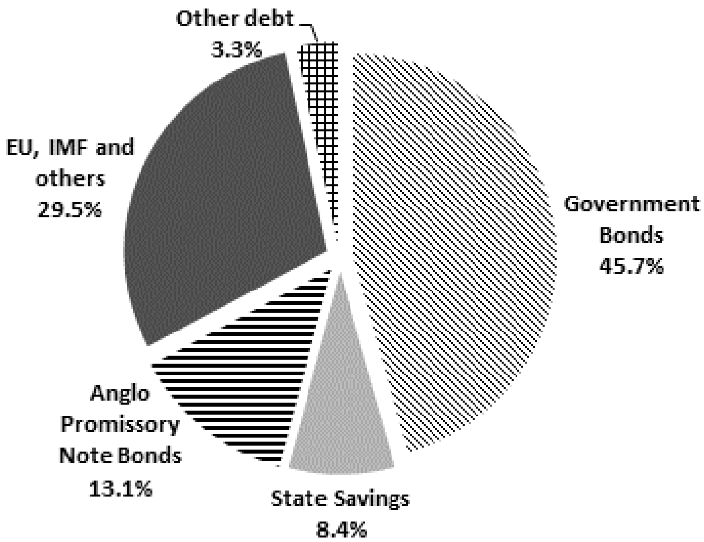
Given the growth in our national debt, the annual cost of servicing that debt has become a key element of Budgetary expenditure. According to the Department of Finance, in 2013 (see table 5) servicing the national debt will require over €8.2bn - equivalent to 14% of total government revenue and almost 5% of GDP. Costs rise in the years to come exceeding €9bn in 2016. Naturally, as this interest bill increases, the pressure to cut other areas of expenditure increases; in particular given the restrictions of the current MOU agreement with the Troika and the new EU fiscal rules.

Social Justice Ireland regrets that during the past year Government failed to achieve a significant write-off of the banking component of the national debt - this is debt predominantly derived from inappropriate lending by international institutions and bond holders to Ireland, it is not our debt.

As part of Budget 2014 Government should commit to achieving a significant reform in the ongoing cost of this debt; a write-off of all or a significant proportion of the debt is essential.

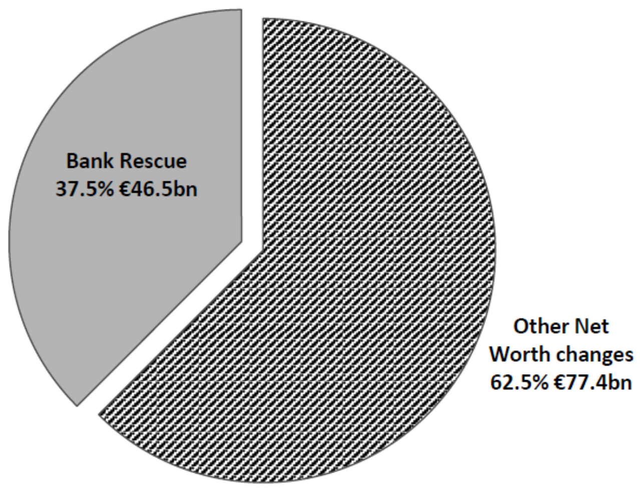
Such a policy change is a matter of fairness and appropriateness and is overdue.

Chart 5: Composition of Ireland's National Debt, end-2012 €192bn



Note: The Anglo Promissory notes (€25.3bn) were converted into Government Bonds in February 2013.

Chart 6: Breakdown of Change in Government's Net Worth 2009-2012



Note: Government's net worth declined by a €124bn between 2009 and 2012.

Source: CSO Government Financial Statistics, April 2013.

Table 5: Ireland's Debt Costs as % GDP, Total General Government Revenue (TR) and in €m, 2012-2016

Year	Debt cost as % GDP	Debt cost as % TR	Annual debt cost
2012	3.7%	10.8%	€6,133m
2013	4.9%	14.0%	€8,227m
2014	4.9%	13.8%	€8,539m
2015	4.9%	13.9%	€8,896m
2016	4.8%	13.9%	€9,078m

Sources: Data for charts and table from Department of Finance Stability Programme Update April 2013.

No More Cuts

Budget 2014 will see the ninth fiscal adjustment to the Irish economy since the current economic crisis began in 2008. It will bring the total cuts and tax increases to date to almost €31 billion - equivalent to 17.75% of GDP which has been directly removed by government from the economy. This huge adjustment to domestic demand has been central to the failure to create jobs and emerge from the crisis.

According to plans outlined in Budget 2013 and in the April 2013 *Stability Programme Update*, Government intends to remove a further €2 billion from the economy in the final phase of 'adjustments' in 2015. Significant restructuring of national debt (p. 6) or a variation in the use of savings from promissory note restructuring (p. 8) could alter these plans. However, if implemented as planned, the overall adjustments from 2008-2015 will total almost €33 billion (Table 6) - equivalent to 18% of GDP forecast for 2015.

Persistence with this harsh austerity approach is producing sustained high unemployment and little confidence or growth in the domestic economy. A change is required.

Social Justice Ireland has made proposals aimed at boosting the economy. Domestic demand should be given a chance to recover through policies promoting government or European Investment Bank led investment (see p. 18). Economic confidence would grow if unemployment fell e.g. via our Part Time Job Opportunities proposal to take large numbers of people off the dole queues (see p. 12).

We have constantly argued that the ratio of tax increases to expenditure cuts (1:2) should be reversed because Ireland's total tax-take is low (p.9). In practice our proposal would mean cuts of €11bn in the 2008-2015 period. In fact cuts have totalled more than €18.5bn already compared to tax increases of €9.3bn.

Consequently **we now strongly urge Government not to cut expenditure in Budget 2014 except when it is in service of reform. Financing for services or the services infrastructure must be protected (p. 12).**

Table 6: Budgetary Adjustments 2008-2015 (€m)

Adjustment Description	Taxation ↑	Expenditure ↓	Total	Running Total
Adjustment July 2008		€1,000	€1,000	**€1,000**
Budget 2009	€1,215	€747	€1,962	**€2,962**
Adjustments Feb/March 2009		€2,090	€2,090	**€5,052**
Supplementary Budget 2009	€3,621	€1,941	€5,562	**€10,614**
Budget 2010	€23	€4,051	€4,074	**€14,688**
Budget 2011	€1,409	€4,590	€5,999	**€20,687**
Budget 2012	€1,600	€2,200	€3,800	**€24,487**
Budget 2013	€1,432	€1,940	€3,372	**€27,859**
Budget 2014*	€1,100	€2,000	€3,100	**€30,959**
Budget 2015*	€700	€1,300	€2,000	**€32,959**
Total of Adjustments	**€11,100**	**€21,859**		
% Division of Adjustments	**33.7%**	**66.3%**		

Note: * indicates projected adjustment from Dep. of Finance, Stability Programme Update April 2013

Some in the Corporate Sector Pay Too Little Tax

In recent months there have been major challenges to Ireland's corporate tax regime with claims that Ireland is a tax haven that facilitates major transnational companies to avoid paying tax. There are two issues to be addressed here. Firstly, what is Ireland's corporate tax regime? Secondly, does the corporate sector pay a fair share of taxation?

PricewaterhouseCoopers' report '*Paying Taxes 2013: The Global Picture'* presents international comparisons between effective rates of profit taxes on companies in many countries. According to this report the effective rate in Ireland is **11.9 per cent** and this has been regularly cited by Government spokespersons. However, the comparisons are based on a hypothetical company with particular characteristics, including the following:

- 100 per cent domestically owned
- Does not participate in foreign trade.

Such a hypothetical company does not approximate to the situation of the main payers of corporate tax in Ireland. Accordingly, the PwC report cannot be relied upon to estimate the aggregate effective rate of corporate tax in Ireland.

In 2010, Corporation Tax receipts amounted to €3,775m (*Estimates of Receipts and Expenditure 2011*). In reply to a Parliamentary Question concerning inter alia the total taxable profits of companies registered in Ireland (*PQ 44299/12 of 16 October 2012*), the Minister for Finance stated that in 2010 these amounted to €61,034m. This would seem to imply an effective aggregate rate of Corporation Tax of **6.2 per cent** in 2010. However, the figure for aggregate taxable profits quoted in the PQ reply is "before certain deductions such as management expenses but after capital allowances and loss relief". Accordingly, there is considerable uncertainty regarding the figure of 6.2 per cent.

It has been estimated that companies in the client base of the industrial support agencies paid €2.4bn in Corporation Tax in 2010 (*Forfás Annual Report 2011*). These companies account for almost two-thirds of Corporation Tax receipts. According to the Forfás "*Annual Business Survey of Economic Impact 2010*", the Total Value Added (i.e sales minus purchases of materials and services) of firms in the client base of the industrial support agencies was €63,920m. Payroll costs amounted to €12,962m, leaving a corporate 'surplus' of €50,958m. If this represented the taxable profits of these companies, the effective tax rate would be **4.7**

Continued on page 8

Guiding Principle: Protecting the Vulnerable

In making choices in Budget 2014 Government should be guided by the principle of protecting the needs of the vulnerable.

16% of Ireland's population is at risk of poverty with incomes below €11,141 for a single person or €25,848 for a household of four.

One fifth of all adults in Ireland with an income below the poverty line are employed. 29% of all the households at risk of poverty today are headed by a person *with* a job. A further 41% are headed by a person ***outside*** the labour force (i.e. older people and people who are ill, have a serious disability or are in caring roles) and are totally dependent on social welfare.

In the current difficult economic climate, *Social Justice Ireland* believes that the Budget should pay particular attention to this group. Those surviving on low incomes continue to struggle and, unlike many other groups in society, have no room to absorb further income cuts and tax increases. Any such cuts would simply deepen their poverty and further undermine their attempts to live their lives with dignity.

Social Justice Ireland has outlined the need to alter the balance of adjustment on p.7. It is clear that the policy of taking the bulk of the adjustment required in the bailout programme from public expenditure has had a significant impact on how basic pubic services are being delivered and has resulted in reduced public services available to those people who rely on them most.

Giving priority to the vulnerable

In practice this would mean increasing basic **social welfare rates** by €5 to ensure that those on the lowest incomes are protected from the harshness of the Budgetary adjustments (see p.15 for more details).

It would also involve giving priority in **healthcare** to developing primary care teams rather than increasing consultants salaries. It would give priority to primary care and community services over the hospital system (p. 13).

In **education** it would mean giving priority to funding early childhood education, training for early childhood education practitioners to ensure that Ireland develops an early childhood education system where every child has access to quality education and care. It would also put the emphasis on reducing the proportion of the population with literacy problems (p. 13)

In **housing** it would prioritise the provision of resources for a sustainable programme of social housing provision to reduce waiting lists (p. 12).

In the area of **employment** it would mean giving priority to supporting those who are unemployed rather than subsidising the further training of people who are already well qualified.

In the context of any additional **Investment spending** it would give priority to initiatives that are good for the vulnerable and for the economy (p. 18).

On the issue of **taxation** it would mean ensuring that those with low incomes are not disadvantaged by the tax system and that Budgetary reforms are focused on making the taxation system fairer (see our proposals on p. 9, 10 and 11 of this *Policy Briefing*).

In **transport** policy it would mean assigning priority to developing public transport and within this context it would ensure that rural transport was adequate, sufficiently resourced and further supported.

In the area of **foreign policy** it would mean honouring Ireland's commitment to provide 0.7% of GNP in foreign aid by 2015 and avoiding any needless cuts in ODA (p. 20).

Promissory note savings - allocate €500m in 2014

The liquidation of IBRC and the related changes agreed between the Irish Government and the European Central Bank (ECB) produced a situation where Government has an additional €1bn available over the Budgets of 2014 and 2015 (note not €1bn each year).

Before setting out how we propose this money should be used in 2014 and 2015, it is important to remember that this resolution to the Promissory Note situation has compounded the injustice of the original deal. It is clear that Government and the European Central Bank decided that banks must be protected ahead of people and that bank gambling debts must be repaid by those of us who had no hand, act or part in causing the banking collapse in the first place.

This new agreement is unjust for a number of reasons which we have set out elsewhere (cf. www.socialjustice.ie).

A fairer future is possible. To move towards such a future we recommend that €500m be used for Budget 2014, leaving €500m available for use in Budget 2015. We have included this amount in our calculations for the coming year.

Corporate Sector Tax

Continued from page 7

per cent. However, this corporate surplus would include depreciation, which would have to be deducted before arriving at a figure for the taxable profits of these companies. (The survey does not show a figure for depreciation.) So, 4.7 per cent cannot be relied on as the aggregate effective corporate tax rate of these companies and the true figure is almost certainly somewhat higher than that.

Recent public inquiries in the US and UK suggest that some very large companies with significant operations in Ireland have effective tax rates on their Irish profits which are considerably below any of the figures quoted above.

As Ireland has struggled to cope since 2008, the corporate sector has not been asked to shoulder any major part of the adjustment required. While many corporate bodies, especially small and medium enterprises struggle to make ends meet and pay 12.5% tax on their profits a small number of huge MNCs are able to pay very low effective tax rates on huge profits. This is being facilitated by allowing these MNCs to charge their own subsidiaries huge bills as licensing fees for intellectual property. This should change (p.10) and all should have to pay a minimum effective corporate tax rate on profits including these licensing fees.

Low tax-take highlights €5.6bn 'Tax Gap'

Despite significant increases in the tax-take from households (both directly and indirectly) in the last five Budgets, the scale of collapse in Ireland's tax revenues has been dramatic. National taxes (those announced in the Budget and collected centrally) have fallen by almost €14b since 2007 with the largest fall in areas such as capital gains taxes, stamp duties, corporation taxes, VAT and PRSI. Decreases in income taxes have been somewhat offset by increased revenues from the income levy (2009-10) and USC.

The impact of these declines in taxation income, reflecting the scale of the national and international recession and the instability and narrowness of the national tax base, have had dramatic effects on the overall tax take - national taxes plus social insurance and local government charges. Looking to the years immediately ahead, table 7 uses Department of Finance data to provide some insight into the expected future shape of Ireland's overall taxation revenues (from all sources). Over the next three years, assuming the policies signalled by Government are followed, overall tax receipts will climb to €59.6bn mainly driven by increases in income, corporation and consumption taxes.

However, even with these increases Ireland remains a low tax economy with its tax take (as a % GDP) equivalent to those among the lowest European countries.

Social Justice Ireland believes that over the next few years policy should focus on increasing Ireland's tax take to 34.9 per cent of GDP, a figure defined by Eurostat as 'low-tax'. The Tax Gap, the difference between this benchmark and the planned level of overall taxation by Government is an average of €5.6bn over the next three years.

As a policy objective, Ireland should remain a low-tax economy, but not one incapable of adequately supporting necessary economic, social and infrastructural requirements. The current low tax model is not sustainable.

Table 7: Ireland's projected total tax take and the tax gap, 2012-2016 (% GDP)*

Year	Tax as % GDP	Total Tax Receipts	The Tax Gap**
2012	30.3%	€49,569m	€7,525m
2013	31.0%	€52,049m	€6,548m
2014	31.7%	€55,245m	€5,577m
2015	31.9%	€57,914m	€5,446m
2016	31.5%	€59,574m	€6,430m

Source: Calculated from Department of Finance, SPU April 2013.

Notes: * Total tax take = current taxes + Social Insurance Fund income + charges by local government.

** The Tax Gap is calculated as the difference between the projected tax take and that which would be collected if total tax receipts = 34.9% of GDP.

Tax Breaks

Tax breaks (or tax expenditures as they are officially known) have received overdue and welcome focus over the past few years. However, despite this they remain an area in need of greater focus and reform.

In Budget 2014, *Social Justice Ireland* believes that Government should reform a number of tax breaks which continue to be available to high income individuals and companies. In each case, these should either involve the removal of the tax break or a substantial reduction in its annual cost to the exchequer.

These include: tax relief on tax free lump sums (€140m), tax free status for farm lease income (€4.4m), Film relief (€42m), the Research and Development tax credit (€216m), and investment property reliefs (€447m) among others.

Budget 2014 should also reform the high earners restriction so that all tax expenditures are included within it. The restriction currently requires higher earners (those above €125,000) to pay a minimum effective taxation rate but for the purpose of its calculation does not include all tax breaks. This should change in Budget 2014.

Proposal:

Social Justice Ireland ***proposes that €150m in tax breaks be removed in Budget 2014.***

PAYE Tax Credits

Any individual whose salary is subject to PAYE is entitled to a PAYE tax credit. The tax due to be paid by such an individual is reduced by the amount of the tax credit. At present the PAYE tax credit is €30 a week (€1,560 a year)

In this Policy Briefing we recommend (p. 15) that social welfare rates be increased by €5 a week. To ensure that this increase will not lead to the creation of any disincentive to take up a paid job we are also recommending that the PAYE tax credit be increased by the same amount €5 a week (€260 a year).

In distributing the available resources through the tax credit system we are also ensuring that they are distributed in a progressive manner. While everyone receives the same amount of cash benefit, the increase is proportionately much larger for lower paid employees.

To maximise the capacity of tax credits to tackle the 'working poor' issue we propose (p. 11) that they be made refundable.

Proposal:

Social Justice Ireland ***proposes that the PAYE tax credit be increased by €5 a week (€260 a year). This would cost the Exchequer €306m in 2014.***

Maximum Effective Income Tax Rate

Self-employed earners currently face a tax rate of 55% on all income that they earn in excess of €100,000 - this is calculated as 41% income tax + 7% USC + 4% PRSI + an additional 3% USC levy.

All other individuals with income above €100,000 face a tax rate of 52% on all their income in excess of €100,000 as they are not subject to the additional 3% USC levy.

It should be noted however that the overall effective tax rate faced by both these groups is well below these marginal figures at around 40-42% of earnings.

Social Justice Ireland proposes two changes in this area in Budget 2014:

Firstly, the USC should apply at 10% for all income above €100,000 irrespective of its source,

Secondly, Budget 2014 should introduce a maximum *effective* tax rate of 45%. The effective tax rate is the percentage of one's total income paid in tax (income tax + USC + PRSI).

This proposal would mean that nobody would ever pay more than 45% of their total income in tax no matter how high their income was.

These proposals would allow government to achieve a more appropriate contribution from the very highest earners in Irish society while also ensuring they don't face a penal effective tax rate.

Proposals:

Social Justice Ireland ***proposes that:***

- ***A maximum effective income tax rate be set at 45%.***
- ***The USC levy of 3% be extended to all income in excess of €100,000 irrespective of its source. Increased revenue: €71m***

Minimum Effective Corporate Tax Rate

Ireland has recently been described as a 'tax haven' by a wide range of commentators across the world (pp.7/8).

This claim received major media prominence when the US Congress published a study identifying five countries they described as being 'tax havens' - which included Ireland. The others listed were Bermuda, Luxembourg, the Netherlands, and Switzerland.

In Ireland a 12.5% corporate tax rate is applied to what is calculated as 'taxable' income not gross profit.

There are rules (which apply to all companies) on how taxable income is calculated to determine the figure to which the 12.5% rate is applied.

Royalty payments for intellectual property licenses are one of the largest differences between gross income and taxable income for some companies. For example, if a company with a gross profit of €100m incurs a trade charge of €80m for royalty payments then taxable income (to which the 12.5% rate is applied in Ireland) is only €20m.

There are major questions concerning the basis for calculating royalty payments on 'intellectual property'.

There are also a range of schemes by which companies can reduce their taxable profits by writing them off against investment in areas such as research and development. There should be a minimum effective corporate tax rate which would ensure that all corporations paid a minimum of their profits in tax.

Proposal:

Social Justice Ireland ***proposes that a minimum effective corporate tax rate of 6% be applied to all corporate profits. This should produce additional revenue of at least €1.1bn in a full year and an additional €500m in 2014.***

Financial Transactions Tax

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

Social Justice Ireland regrets that to date Government has not committed to supporting recent European moves to introduce a Financial Transactions Tax (FTT) or Tobin Tax. The October 2011 EU Commission proposal for an FTT, proposes that it would be levied on transactions between financial institutions when at least one party to the transaction is located in the EU. The exchange of shares and bonds would be taxed at a rate of 0.1% and derivative contracts, at an even lower rate of 0.01%. Overall the Commission projects that the FTT would raise €57 billion per annum.

To date 11 of the 27 EU member states have signed up to this tax and *Social Justice Ireland* believes that Ireland should also join this group. In our opinion, the tax offers the dual benefit of dampening needless and often reckless financial speculation and generating significant funds. We believe that the revenue generated by this tax should be used for national economic and social development and international development co-operation purposes, in particular financing Ireland and other developed countries to fund overseas aid and reach the UN ODA target.

Proposal:

Social Justice Ireland ***proposes that Budget 2014 should commit Ireland to adopting the current EU Commission proposals on a FTT to yield €500m.***

Refundable Tax Credits

Social Justice Ireland's proposal to make tax credits refundable would make Ireland's tax system fairer, address part of the working poor problem and improve the living standards of a substantial number of people in Ireland. Our detailed study on this issue in 2010 *'Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits'* identified that 113,000 low-income individuals would benefit in an efficient and cost effective manner from making tax credits refundable. The proposal only applies to the unused portions of the Personal and PAYE tax credits. The cost of refunding unused tax credits to individuals satisfying all of the criteria outlined in the study is €140 million.

A system of refundable tax credits, as proposed by *Social Justice Ireland* would address part of the working poor problem in a straightforward and cost-effective manner. This system would also result in all future changes on tax credits being equally experienced by all employees in Irish society. Such a reform would mark a significant step in the direction of building a fairer taxation system and represent a fairer way for Irish society to allocate its resources.

To access the study visit www.socialjustice.ie

Proposal:

Social Justice Ireland ***proposes that tax credits be made refundable. This would cost €140 million in 2014.***

Diesel Rebate

In Ireland, fuel for agricultural or industrial purposes carries lower rates of tax and duty. It is dyed green so as to separate it from diesel for everyday use. The state spends €600m each year dyeing 1.25 billion litres of fuel. In addition to the €600m cost to dye the fuel, it is estimated that the state loses €150m each year to fuel laundering. The introduction of a process where dye is no longer added to diesel could save Government €750m in 2014.

Social Justice Ireland proposes that a rebate system be introduced for road hauliers, bus and coach operators and farmers and that the fuel dyeing process be discontinued. The rebate system would cost €48m for farmers, €4m for coach operators and €70m for road hauliers. The cost of introducing the rebate system would be €122m in 2014. The remaining savings of €628m should be invested in productive activities designed to boost domestic demand, develop Ireland's infrastructure and create jobs. By introducing a rebate system government would save a considerable amount of money while significantly impacting on fuel laundering and criminal activity.

Proposal:

Social Justice Ireland ***proposes that the process of dyeing diesel be ended and a rebate system for farmers, coach operators and road hauliers be introduced. Net Exchequer saving: €628m***

Bad Nutrition Tax

Ireland is known for its fresh and wholesome food produced locally. Now, however, the consumption of highly processed food is causing a major health problem because it is fuelling the increase in obesity which now affects one in five Irish adults and an estimated 300,000 children. These numbers are rising. This growing problem has very serious implications for people's wellbeing. In particular the increased rates of diabetes and cardiovascular disease are adding substantially to the cost of Ireland's healthcare services.

Social Justice Ireland proposes the introduction of a bad-nutrition tax on salt, alcohol, sugar and trans fats. These are the most common ingredients in fast food, ready meals and soft drinks which are the major cause of obesity. They are also contained in confectionery, cakes, biscuits, sugary drinks, and salty savoury snacks. The revenue generated from this tax should go directly back into resourcing the health service.

Proposal:

Social Justice Ireland ***proposes that a 'bad nutrition' tax be placed on the main components of junk food, fast food and soft drinks by introducing a 2% tax on salt, alcohol, sugar and trans fats to yield €15m.***

Introducing A Text Tax

A text (SMS) tax would be a simple way for government to raise additional revenue in a broad way from a large base with limited complexity. *Social Justice Ireland* believes that a nominal text tax of one third of one cent should be levied on each SMS sent through mobile phones or any other device.

The Communications Regulator, ComReg, reported in the Quarter 4 2012 report that there were 2.94 billion SMS messages sent in Ireland during the final quarter of 2012. Based on this, there would be an annual SMS volume of 11.7 billion SMS messages. A text tax levied at one third of one cent on each of these messages would provide an annual income to Government of €35m.

Given the scale of this tax, it is unlikely to have much, if any, distortionary effect on SMS senders and it could be easily collected by mobile phone companies and passed on to the exchequer. The mandatory reporting of mobile phone usage data to ComReg by phone operators also provides Government with an easy way to monitor this tax.

Proposal:

Social Justice Ireland ***proposes that a tax of one third of one cent be put on each text sent by SMS through mobile phones or any other device. We estimate that this would provide an additional €35m in taxation revenue in 2014.***

Protecting Social Supports

An issue that is often overlooked in decision-making at times of crisis is that particular budgetary decisions may provide a short-term gain or saving but have huge negative long-term consequences. In reality many decisions made during the current series of crises are set to have such effects.

Policy-making in Ireland has tended to focus almost exclusively on the 'urgent' or the short-term gain in recent years. There has been no real guiding vision to ensure that choices are made on a consistent basis and that the social infrastructure underlying the fabric of Irish society is protected. An example of this in practice can be seen in the increase on the prescription charge for medical card holders in Budget 2013 despite a report recommending that such charges be removed because they are a disincentive to elderly and vulnerable people from seeking the medical care they need.

These decisions had short-term gains for government in that they saved money. On the other hand, however, they also had very negative long-term consequences for the health of elderly and vulnerable Irish people and the health care system.

This is an extraordinary indictment of Government's decision-making which sees some of Ireland's most vulnerable people being among the hardest hit as a result of Budget decisions. This approach to decision-making which prioritises short-term gain and fails to address the long-term impact is being applied across a whole range of social services by Government.

Many public services are provided by Community and Voluntary organisations. These have come under huge pressure in recent years as the recession has forced an ever-growing number of people to seek their help on a wide range of fronts. But, just at the very moment when the demand for their services increased Government reduced the funding being made available to many such organisations.

It is very noticeable that the scale of cutbacks by Government in the funding provided for provision of public services by the Community and Voluntary sector is proportionately much larger than the cutbacks to funding for public services provided by the public sector.

There should be no further reductions in the income supports for vulnerable people who are dependent on benefits. Likewise there should be no reduction in funding for services needed by people in this situation.

The social infrastructure is being undermined by Government without any regard to the long term consequences of these actions.

Those who are poor and/or vulnerable are bearing an inordinate part of the burden of restructuring.

Government has made no assessment of what the long term impacts of the cuts to services and service reductions will mean for Ireland in ten years time.

Proposal:

Social Justice Ireland ***proposes that Government conduct a long-term impact assessment of decisions made in Budget 2014 to ensure no further deterioration in Ireland's social support infrastructure.***

Social Housing

Ireland has approximately 100,000 households on waiting lists for social housing and no credible plans to address this issue on any scale. There is a clear association between being in housing need and low income. In 2011, over three quarters of households in need of social housing had incomes below €15,000 per annum. Low income and low accommodation standards are associated with poor health levels and poor future educational and life opportunities. The area of social housing requires urgent attention given that over 44 per cent of the households in need of housing support consist of household with children.

The allocation for social housing in Budget 2013 to increase the number of housing units by 5,000 was totally inadequate and will go nowhere near having a major impact on the social housing waiting lists. Government should take immediate action to ensure the supply of social housing, including co-op and voluntary non-profit housing, is on the scale required to eliminate local authority waiting lists. Government should also ensure continued investment in developing social housing in order to maintain a stock of local authority houses.

Proposal:

Social Justice Ireland ***proposes that an extra €50m be allocated for social housing in Budget 2014.***

PTJO Proposal

The past five years have seen Ireland return to the phenomenon of widespread unemployment. The transition from near full-employment to high-unemployment has been one of the major characteristics of this recession.

The implications for people, families, social cohesion and the exchequer's finances have been serious. Economic forecasts indicate that unemployment will remain high in the period ahead. Of particular concern is the growth in long-term unemployment which now stands at 8.2% (CSO, QNHS Q4, 2012). Evidence from the past underscores the need to take long-term unemployment seriously. People who fall out of touch with the active labour market tend to struggle to re-enter it. Policy should be active in avoiding this problem.

Social Justice Ireland believes government should introduce a new programme to ensure that real employment at the going hourly rate for the job is available to 100,000 people currently long-term unemployed. Participation must be voluntary. This programme should be based on the Part-Time Job Opportunities Programme that was piloted between 1994-1998, details of which are available on www.socialjustice.ie.

Proposal:

Social Justice Ireland ***proposes that a Part-Time Job Opportunities programme should be established along the lines of the programme piloted in the 1994-1998 period. Funding of €50m should be allocated in Budget 2014.***

Social Infrastructure

Education

Investment in education at all levels can deliver a more equal and inclusive society. In Ireland under investment in education is most severe in early childhood education, lifelong learning and second chance education. These are the very areas vital to promote equity and fairness.

1. **Contribution to higher education**

There are strong arguments from an equity perspective that those who benefit from higher education, and can afford to contribute to the costs of their higher education, should do so. This principle is well established internationally and is an important component of funding strategies for many of the better higher education systems across the world. *Social Justice Ireland* proposes that Government should introduce a system in which

- fees are paid by all participants in third level education
- with an income-contingent loan facility being put in place to ensure that all participants who need to do so can borrow to pay their fees and cover their living costs, and repay their borrowing when their income rises above a particular level.

In this system all students would be treated on the same basis. Tuition and living cost loans would be available on a deferred repayment basis. Repayment would be based on their own future income rather than on current parental income. Part-time students should be included in this approach

Proposal:

Social Justice Ireland ***proposes that a new loan scheme along these lines should be introduced. This would reduce Exchequer spending by €445m in a full year.***

2. **Early childhood education**

Early childhood education and care plays a crucial role in providing young people with a chance to develop their potential to the fullest possible extent. Age 0-5 is the point at which differences in early health, cognitive and non cognitive skills, which are costly causes of inequality can be addressed most effectively. Early Childhood education has the potential to both reduce the incidence of early school leaving and to increase the equity of educational outcomes. For every €1 invested in children aged 0-5 there is a €7 return.

Proposal:

Social Justice Ireland ***proposes that Government invest an extra €150m in quality Early Childhood Education and Care facilities and training.***

3. **Adult literacy**

The Programme for Government states that government will address the widespread and persistent problem of adult literacy. No updated targets or strategies have been outlined since the 2007 target set in the NAP inclusion document of reducing the proportion of the population 16-64 with literacy difficulties to between 10%-15% by 2016. It is time to invest significantly in adult literacy programmes and second chance education.

Proposal:

Social Justice Ireland ***proposes that an extra €20m in Budget 2014 as for additional funding for adult literacy.***

Health

Urgent action is required in four key areas if the basic model of community based health and social services to underpin the health system is not to be undermined. All are addressed here.

1. **Older People's Services**

If older people's health is to be addressed appropriately it is essential that there be support for older people to live at home by providing community based services to meet their needs. A mix of public & private residential care is required. There is an urgent need to address the specific deficits that exist in public residential care (community hospitals) infrastructure.

Proposal: An investment of €325m over a five year period, i.e. €65m each year, enabling 12-15 community nursing facilities with about 50 beds each to be replaced or refurbished each year.

Social Justice Ireland ***proposes that €65m should be allocated in Budget 2014 as the first tranche of funding for this purpose.***

2. **Primary Care Teams (PCT)**

The HSE is developing Primary Care Teams and Social Care Networks as the basic 'building blocks' of local public health care provision. PCTs draw the local health professionals together to provide a one-stop shop for community needs. PCTs provide a single point of contact for the person and the system.

Proposal: An investment of €250m over a five year period is needed to support the infrastructural development of 519 Primary Care Teams required to cover the whole country.

Social Justice Ireland ***proposes that €50m should be allocated in Budget 2014 as a new tranche of funding for this purpose.***

3. **Children and Family Services**

In tandem with the development of PCT services there is a need to focus on health and social care provision for children and families. The obligation on the State to do this has been well highlighted recently.

Proposal: A €250m investment over a five year period is required to address the infrastructural deficit in Children and Family services.

Social Justice Ireland ***proposes that €50m be allocated in Budget 2014 as the first tranche of funding for this purpose.***

4. **Mental Health Services**

A Vision for Change is the national strategy for mental health published in 2006. It sets out how services should be structured and delivered in Ireland. The €35m allocation in Budget 2013 is welcome but we are disappointed that the allocation of €35m in Budget 2012 for the Development of Community Mental Health Teams was not spent and diverted elsewhere in the health service.

Proposal: A further €140m is required over the next four years in order to support the development of extended catchment areas and Community Mental Health Teams.

Social Justice Ireland **proposes a further €35m be allocated in Budget 2014 for this purpose.**

Pensions: Introduce a universal state pension

In 1994 5.9% of people aged 65 or older were at risk of poverty. This figure has fluctuated greatly over the past twenty years and currently stands at 9.7%.

There has been some complacency around the welfare of older people since the economic crisis began with suggestions that older people have been protected more than other vulnerable groups.

In light of this, it should be noted that the deprivation rate for those aged 65 or older stood at 11.3% in 2011, higher than the 10% recorded in 2004.

Over 80% of older people are reliant on the state pension for the majority of their income. As a result, many of our senior citizens are getting by on very little.

Without social welfare payments 88% of those aged 65 would be at risk of poverty. The importance of the state pension and payments to older people cannot be emphasised enough.

Current Government Policy

The Irish pension system is now characterised by a low flat-rate state pension paid on the basis of contribution and - if there has been insufficient contribution through the social insurance system - on the basis of need.

Private pensions attract extremely generous tax subsidies that cost the state over €2.6bn a year. Tax relief is available at the standard rate (20%) and the higher rate (41%). Over 80% of the €2.6bn of tax relief accrues to top 20% of income-earners.

While government has restricted the level of tax relief available over the last five years, the pension system remains extremely inequitable and the tax relief granted operates as a subsidy to Ireland's poorly performing pensions industry, which has consistently been unable to generate the returns on private pensions that Government assumed.

The current government has expressed a desire in the Programme for Government to cap tax-subsidised income from retirement at €60,000.

***Social Justice Ireland*'s Proposal**

The recent OECD report on pension options for Ireland proposed that the Irish pension system move to either a means-tested pension, or a universal basic pension as both could lead to a *'much simpler, more transparent and less costly public pension scheme.'*

The tax break on pensions costs the Exchequer about €2.6bn. 80% of this tax break goes to the richest 20% of the population. *Social Justice Ireland* considers this to be a scandal that should be addressed immediately.

Social Justice Ireland proposes that a universal pension be introduced to replace the current various state pension payments. This would:

- Provide an individualised standard payment to all pensioners satisfying a residency condition;
- Make possible an equitable payment to those who worked inside and outside the home;
- Deal with the many anomalies that exist currently in the Social Welfare system in relation to average contribution conditions and the differential between contributory and non-contributory pensions;
- Largely eliminate means testing and special schemes such as the Homemaker's Scheme; and
- Be simple to administer.

There is an anomaly within the current state pension system that public servants recruited before 1995 do not receive a social welfare pension.

The position of pre-1995 public servants would continue as before.

Social Justice Ireland estimates that total additional cost of introducing a universal pension in 2014 (in a full year) would be not more than €579m. This figure is based on an analysis of 2011 statistics and the introduction of a universal pension at €230.30 weekly.

Given that increasing numbers of new social welfare pensioners are receiving the full State Pension (Contributory), this figure will be lower in 2014.

To finance this additional expenditure

- The higher rate of tax relief for private pensions should be lowered to 20%, raising €560m.
- The standard fund threshold should be reduced to €622,500, the earnings cap to €75,000, and the tax-free lump sum to €112,500.

These combined measures would raise €960m. However, assuming Government gives effect to the desire in Budget 2013 to raise revenue of €250m from private pension tax relief the total additional revenue from our proposed changes would yield €710m in 2014.

Proposals

Social Justice Ireland ***proposes that Budget 2014:***

- ***Introduce a Universal Pension for all those aged 66 and over at the same level as the State Pension (Contributory). This would replace the current State Pension. This would cost €579m in a full year.***
- ***Give effect to Social Justice Ireland's proposal for private pension tax reform in Budget 2014. This would raise €710m in a full year.***

This would raise the necessary resources from highest income earners while creating a fairer pension system. ***Social Justice Ireland*** **will publish a detailed study outlining this proposal in the autumn.**

Summary of Proposals on Pensions	Impact on Government income and expenditure
Standard rate all pension contributions	**Increased income of: €710m**
Introduce universal pension for all over-65	**Increased expenditure of: €579m**

Welfare Increase of €5 for lowest payments

Following a series of Budgets, the minimum social welfare payment reached a benchmark equivalent to 30% of Gross Average Industrial Earnings (GAIE) in 2007. Since then it has roughly tracked that benchmark, including falling in value in tandem with earnings decreases as the recession struck.

Since 2007 the CSO has altered the method by which it collects data on earnings, replacing the narrow measure of gross average industrial earnings with a more comprehensive data series on earnings across most sectors in the economy. The core measure of earnings is now a measure of average weekly earnings across all the employment sectors now covered in the survey.

Research commissioned by *Social Justice Ireland* (Collins, 2011) established that 27.5% of this figure is equivalent to the former 30% of GAIE benchmark.

Table 8 applies this benchmark using CSO data and ESRI projections of wage growth in 2013-14.

To adjust minimum social welfare payments towards their benchmark with average earnings, Budget 2014 should increase payments by €5 to reach €193 per week

In 2013 27.5% of average weekly earnings equals €192.56, which is more than the current minimum social welfare payment of €188. It increases to €195.45 in 2014.

As a consequence of this benchmark, *Social Justice Ireland* believes that Budget 2014 should increase the minimum social welfare payment by €5 – this would begin to bridge the gap between the payment and the earnings benchmark. Subsequently in Budget 2015 Government should deliver the balance of the adjustment (€2.50) plus any other increase necessary for that year.

Proposal:
Social Justice Ireland proposes that Budget 2014 increase the minimum social welfare payment by €5 per week.

Table 8: Benchmarking Social Welfare Payments for 2013 and 2014 (€)

Year	Average Weekly Earnings	27.5% of Average Weekly Earnings
2012	691.93	190.28
2013	700.23	192.56
2014	710.74	195.45

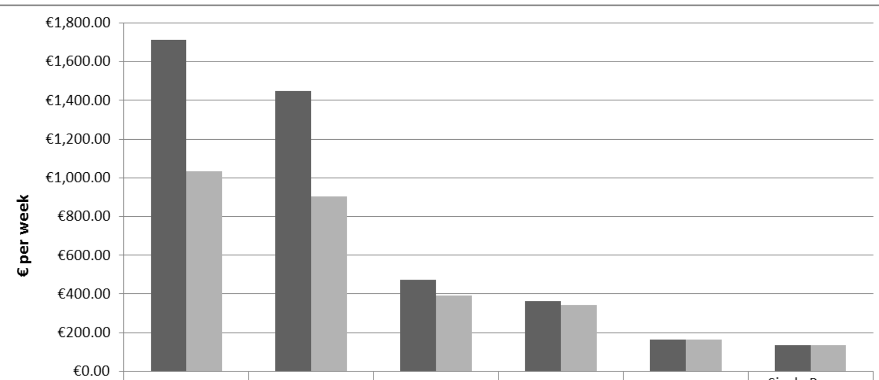
Notes: 2012 data from Quarter 3 2012 (CSO, February 2013).
Earnings Growth rates for 2012 and 2013 from ESRI QEC Winter 2012.

Income Changes - a 25 year assessment

A recurring, if unsupported, argument over recent times has been that a reduction in the basic social welfare payment, jobseekers benefit, is needed as that welfare rate grew too fast to reach too high a level during the last decade. As we have shown elsewhere (see *Socio-Economic Review* 2012 p68-70) over the period since 2000 welfare increases were essentially attempting to catch-up given the dramatic worsening of the position of those dependent on social welfare relative to the rest of society – most significantly demonstrated by the large increases in the poverty levels of welfare recipients between 1994 and 2001. However, it is worth broadening this perspective to compare the income gains of those on welfare compared to a range of others in Irish society over the past 25 years. Chart 7 presents the results - further details on these calculations is available on our website.

The analysis shows that over the past 25 years the take-home pay of TDs rose by €902 a week while unemployment benefit rates for a single person only increased by €135 a week in the same period. Government ministers' take-home pay rose by more than €1,034 a week in the same period. Similarly, the take-home pay of clerical officers in the public sector rose by €391.83 a week; the take-home pay of a person on the average industrial wage rose by €343.93 a week; and the contributory old age pension for a single person rose by €162.35 a week. These are dramatic numbers in the context of the ongoing calls for welfare and pension cuts. Other choices exist that would enable Government to avoid cutting social welfare.

Chart 7: Increases in Weekly Income, 1986-2011



	Minister	T.D.	Clerical Officer	Average Industrial Wage	Single Contributory Pension	Single Person receiving Unemployment Benefit
Gross Weekly	€1,714.03	€1,448.68	€471.27	€361.92	€162.35	€135.84
Nett Weekly	€1,034.67	€902.06	€391.93	€343.93	€162.35	€135.84

TAXATION: Social Justice Ireland's key Budget Initiatives for Budget 2014				
Area	**Proposal**	**Increase in Exchequer Income**	**Decrease in Exchequer Income**	**Balance**
Carry-over	Carry-over from Budget 2013 p.4	€613m		
Financial	Financial Transactions Tax p.10	€500m		
Corporate Sector	Introduce a minimum Effective Corporate Tax Rate p.7/8	€500m		
USC	Extend USC Levy of 3% to all incomes in excess of €100,000 irrespective of its source p.10	€71m		
PAYE	Increase the PAYE credit by €5 per week		€306m	
Carbon	Remove the double income tax relief for Farmers in respect of Additional Carbon Tax	€3.4m		
Nutrition	Introduce an anti-bad nutrition tax p.11	€15m		
Text messages	Introduce a tax of one third of one cent on each text sent via SMS through mobile phone or any other device p.11	€35m		
Gambling	Increase the tax on online gambling to 5%	€100m		
Tax credits	Make tax credits refundable p.11		€140	
Pension	Standard rate the tax break on all pension contributions p.14	€710		
Tax breaks	Implement the Commission on Taxation recommendations on tax-breaks (excluding the recommendation on	€150		
Promissory Note Savings	Promissory note savings as a result of IBRC legislation	€500m		
Fuel	Increase to the exchequer as a result of removing the process of adding a dye to diesel	€150m		
Totals		**+€3,347.4m**	**-€446m**	**€2,901.4m**

Social Justice Ireland's Proposals for Budget 2014

***EXPENDITURE: Social Justice Ireland*'s key Budget Initiatives for Budget 2014**				
Area	**Proposal**	**Decrease in Exchequer Expenditure**	**Increase in Exchequer Expenditure**	**Balance**
Labour Market	Introduce a Part-Time Job Opportunities programme for those who are long-term unemployed p.12		€50m	
Public Expenditure	Net savings identified in Haddington Road Agreement	€150m		
	Reduction in expenditure based on the results of the Comprehensive Expenditure Report 2012-2014	€215m		
	Reduce the cost of Government payment for legal fees	€15m		
	Reduce the costs of public procurement contracts to Government	€75m		
	Savings from National Procurement Service for supplies to Public Bodies	€41m		
Social Welfare	Increase core social welfare rates by €5 per week p.15		€231m	
Pensions	Introduce a Universal Basic Pension from January 1 2014 p.14		€579m	
Health	Older people programme p.13		€65m	
	Mental Health Services p.13		€35m	
	Primary Care Teams Programme p.13		€50m	
	Children and Family Services Programme p.13		€50m	
Education	Introduce an income contingent loan scheme for 3rd level students to pay their fees and cover their living costs p.13	€445m		
	Increase funding for Adult Literacy p.13		€20m	
	Increase funding for Early Childhood Education and Care training and facilities p.13		€150m	
Third World	Increase Aid Budget to meet UN Target p.20		€47m	
Social Housing	Increase provision for social housing p.12		€50m	
Fuel	Remove the fuel dyeing process for diesel p.11	€600m		
	Introduce a rebate system for farmers, road hauliers and coach operators p.11		€122m	
Interest savings	Savings in interest expenditure identified from debt refinancing in 2014	€115m		
Totals		**€1,656m**	**€1,449m**	**- €207m**

Social Justice Ireland's Proposals for Budget 2014

***FISCAL IMPACT of Social Justice Ireland*'s key Budget Initiatives for Budget 2014**

Area	**Impact on Government Expenditure**	**Impact on Government Revenue**	**Impact on Government Borrowing**
Increases in expenditure	+ €1,449m		
Decreases in expenditure	- €1,656m		
Overall change in Government Expenditure	- €207m		
Increases in revenue		+€3,347.4m	
Decreases in revenue		-€446m	
Overall change in Government Revenue		+€2,901.4m	
Total impact of proposed Budget Initiatives			- €3,108.4m

Investment Stimulus Needed for weak Domestic Economy

Since the outset of Ireland's economic crash, the public policy focus has been on banks, debt, the sustainability of the euro and the specifics of the Troika Bailout agreement. This has been to the detriment of the domestic economy. As we have highlighted earlier, the consequences of the recession have been severe on those who had least to do with its creation - a point we continue to make in our meetings with the Troika officials.

The impact of the recession on the domestic economy is reflected in the huge growth in unemployment (see page 2) and the rapid decrease in national income.

Since 2007 GDP has declined by just over 13 per cent but there have been far more severe declines in the measures of economic activity that most closely measure what is happening in the domestic economy. Since 2007 GNP has fallen by 18% and domestic demand (the combination of household spending, government current spending and investment) has fallen by 28%.

Based on the Department of Finance's projections for future years, the levels of domestic economic activity are expected to remain very weak.

Without investment there will be no jobs and without jobs there will be no recovery

As it is the domestic economic sector that is the most employment intensive, it is crucial that policy does not continue to ignore this sector - but rather focuses additional resources towards it and towards stimulating demand within it.

Government recently announced an investment strategy but details and timeframes are unclear.

As part of Budget 2014, *Social Justice Ireland* believes that Government should adopt a multi-annual investment stimulus. It is important to note that without investment there will be no jobs and without jobs there will be no recovery. We propose an off balance sheet €7 billion stimulus and will publish a document on the details of the plan in September 2013.

Proposal:
Social Justice Ireland ***proposes that Budget 2014 should commit Government to the adoption of a multi-annual off balance sheet investment stimulus totalling €7 billion.***

Investment Stimulus Document

Social Justice Ireland will publish a document in September 2013 outlining a detailed proposal for a multi-annual off balance sheet investment stimulus.

The document will be available on our website: *www.socialjustice.ie*

Budget 2014 - Summary of Key Proposals

In this Policy Briefing *Social Justice Ireland* sets out a range of fully-costed proposals that would (i) reduce Government's borrowing; (ii) protect the vulnerable, (iii) make the tax system fairer; (iv) set a minimum effective corporate tax rate; (v) protect public services; (vi) increase domestic demand; (vii) increase social welfare rates (viii) distribute the 'hits' in Budget 2014 more fairly. Among our major proposals are the following:

1. Reduce **borrowing** by €3.1bn.
2. Do this mainly (over 90%) through tax adjustments. P.7
3. Introduce a minimum effective **corporate tax rate** that would ensure that all corporations in Ireland pay at least 6% tax on their profits here. P.7/8/10
4. **Make tax credits refundable** in Budget 2014. At a cost of €140m this proposal would directly benefit 113,000 low income individuals and begin to address the 'working poor' issue. P.11
5. Extend the **USC levy of 3% to all income in excess of €100,000** irrespective of its source. This would increase revenue by €71m. P.10
6. Implement a **maximum effective income tax rate of 45% .** This would ensure that nobody would ever pay more than 45% of their total income in tax no matter how high their income was. P.10
7. Increase **Social Welfare rates** by €5 in 2014. P.15
8. Increase **the PAYE Credit** by €5 per person in 2014. P.9
9. Introduce a **Financial Transactions Tax** of 0.01% which would yield €500m in 2014. P.10
10. Introduce **a universal basic pension** payment for all people over the age of 65 from July 2014. This would be set at €230.30, the current level of the Contributory Old Age Pension. **Standard rating the tax break** for all pension contributions to 20% would increase the tax-take by €700m in 2014 and would help fund the universal basic pension payment. This would be a fairer and more equitable way of organising the pension system in Ireland. P.14
11. Remove **the dyeing process for agricultural and industrial diesel**. Eliminating the fuel dyeing process would save €750m and would have a significant impact on reducing fuel laundering and criminal activity. P.11
12. Introduce a **rebate system for farmers, road hauliers and bus and coach operators** whereby they can claim the price differential for agricultural diesel. This proposal would cost €122m to implement. P.11
13. Introduce **a tax of one third of one cent on each text sent by SMS** through mobile phones or any other devices. This would provide an additional €35m in taxation revenue in 2014. P.11
14. Introduce **a 'bad nutrition' tax** on the main components of junk food, fast food and soft drinks to yield €15m in 2014. P.11
15. Invest €65m to enable 12-15 **community nursing facilities** with approximately 50 beds each to be replaced or refurbished in 2013. P.13
16. Invest €50m for the infrastructural development of **Primary Care Teams** in 2013. P.13
17. Invest €50m for the infrastructural development of **Children and Family Services**. P.13
18. Invest €35m to support the development of **Community Mental Health teams**. P.13
19. Introduce **an income contingent student loan facility** to allow students to borrow to pay for third level fees and living costs. This would save the exchequer €445m in 2013. P.13
20. Invest €150m in quality facilities and training for **Early Childhood Education and Care**. P.13
21. Invest €20m in **Adult Literacy** programmes. P.13
22. Increase the provision for **Social Housing** by €50m. P.12
23. Increase the tax take on **online gambling** to 5% to yield €100m.
24. **Remove tax expenditures** of €150m in Budget 2014. P.9
25. Increase the **ODA Budget** by €47m to reach the UN Target of 0.7% GDP in 2015. P.20
26. Reduce expenditure on procurement of goods by public bodies by €41m.
27. Implement savings in the public procurement process to yield €75m in 2014.
28. Reduce public expenditure through measures identified in the Comprehensive Expenditure Report 2012-2014 and the Haddington Road agreement.
29. Use **promissory note savings of €500m** to invest in social infrastructure and boost domestic demand.
30. Reverse planned Capital Expenditure Consolidation of €205m in Budget 2014.

Growth Forecasts Not Credible

The overall effect of Budget 2014's proposed €3.1 billion adjustment to the Irish economy will be approximately €3.5 billion in reduced economic activity in Ireland in 2014. The size of this effect is driven by both the direct reduction in government and consumer spending from the Budget's decisions and the indirect effect on the economy of the knock-on implications of these decisions (the multiplier effect).

Put simply, a reduction in government spending means there is less money circulating in the economy and less money passing from company to company and consumer to consumer - i.e. there will be less economic activity.

Taking this multiplier effect into account means that in 2014 for the Irish economy to stand still (achieve 0% GDP growth) it must replace through new economic activity (growth) the total effect of the Budget's adjustments which will be approximately €3.5 billion or 2% of GDP.

Furthermore, for the economy to achieve the growth targets most recently set out by the Department of Finance (2.4% GDP growth in 2014) the economy must replace the effect of Budget 2014 and generate a further €4 billion in additional economic activity in 2014. Overall, this implies that Ireland must experience an underlying growth rate of 4.4% in 2014 - similar to the growth levels experiences in boom times.

This does not seem credible and we believe it unlikely these Budget growth targets will be met.

This is one reason we propose a major new investment programme (p.18). Without investment there will be no jobs. Without jobs there will be no recovery.

We need credible economic forecasts and viable policy initiatives to move out of the present crisis.

Protecting the World's Poorest

Social Justice Ireland believes that in Budget 2014 Ireland's overseas aid budget should not be reduced any further. In the context of Ireland's current challenges it is important to bear in mind that many people in the world are in a far worse situation and have been in this situation for a very long time. The Irish Government made a commitment to reach a target of spending 0.7% of our national income on overseas aid by 2015. Ireland should provide international leadership on this issue and honour its commitments on ODA.

Sine 2008 Ireland's ODA budget has fallen by 32%, a cut of €298m. In 2013, Ireland will give €622 million in overseas aid; an amount equivalent to 0.48% of GNI. At present we are moving backwards from the target we have committed to. ***Social Justice Ireland* strongly urges Government to provide an additional €47m in Budget 2014 towards reaching that 2015 ODA target.**

Social Justice Ireland

We're on the web
www.socialjustice.ie

Recent Publications from *Social Justice Ireland*

- What would *Real* Recovery Look Like? Socio-Economic Review 2013
- The Impact of the European Crisis: A study on the impact of the crisis and austerity on people with a special focus on Greece, Ireland, Italy, Portugal and Spain.
- Does the European Social Model have a Future?
- Policy Briefing on Poverty and Income Distribution
- Analysis and Critique of Budget 2013
- Sharing Responsibility in Shaping the Future

All of these are available on our website at www.socialjustice.ie. Printed copies can be purchased from the Social Justice Ireland offices.

Support *Social Justice Ireland*

If you wish to become a member of *Social Justice Ireland* or make a donation to support our work you may do so through our website at *www.socialjustice.ie* or by contacting our offices directly.

Social Justice Ireland is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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