4.

TAXATION

CORE POLICY OBJECTIVE: TAXATION

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

The fiscal adjustments of recent years highlight the centrality of taxation in budget deliberations and to policy development at both macro and micro level. Taxation plays a key role in shaping Irish society through funding public services, supporting economic activity and redistributing resources to enhance the fairness of society. Consequently, it is crucial that clarity exist with regard to both the objectives and instruments aimed at achieving these goals. To ensure the creation of a fairer and more equitable tax system, policy development in this area should adhere to our core policy objective outlined above. In that regard, *Social Justice Ireland* is committed to increasing the level of detailed analysis and debate addressing this area.[30]

This chapter first considers Ireland's present taxation position and outlines the anticipated future taxation needs of the country. Given this, we outline approaches to reforming and broadening the tax base and proposals for building a fairer tax system. The issues addressed in this chapter include a number of the elements of *Social Justice Ireland's* Core Policy Framework (see Chapter 2) including: 'Ensure Macroeconomic Stability', 'Move Towards Just Taxation' and 'Enhance Social Protection'.

[30] We present our analysis in this chapter and in the accompanying annex 4.

Table 4.1: The changing nature of Ireland's tax revenue (€m)

	2007	2008	2009	2011	2012
Taxes on income and wealth					
Income tax	13563	13148	11801	14009	15201
Corporation tax	6393	5071	3889	3751	4216
Motor tax - households*	526	583	582	556	580
Other taxes	5	6	201	184	189
Fees - Petroleum & Minerals	5	10	2	4	4
Various Levies on income	411	414	373	317	300
Social Insurance	9053	9259	8924	7532	6786
Total taxes on income and wealth	**29957**	**28491**	**25771**	**26353**	**27276**
Taxes on capital					
Capital gains tax	3097	1424	545	416	414
Capital acquisitions tax	391	343	256	244	283
Pension Fund Levy	0	0	0	463	475
Total taxes on capital	**3488**	**1767**	**801**	**1123**	**1172**
Taxes on expenditure					
Custom duties	30	21	11	18	35
Excise duties including VRT	5993	5547	4909	4904	4809
Value added tax	14057	12842	10175	9588	10029
Rates	1267	1353	1471	1499	1435
Motor tax- businesses**	431	477	476	455	475
Stamps (excluding fee stamps)	3244	1763	1003	936	954
Other fees and levies	194	242	231	282	296
Total taxes on expenditure	**25216**	**22246**	**18275**	**17682**	**18032**
EU Taxes	**519**	**484**	**359**	**416**	**417**
Total Taxation* **	**59180**	**52988**	**45207**	**45574**	**46897**
Total Taxation as % GDP#	**31.2**	**29.4**	**27.9**	**28.0**	**28.6**

Source: CSO on-line database tables N1222:T22 and N1202: T02.
Notes: *Motor tax is an estimate of the portion paid by households.
**Motor tax is an estimate of the portion paid by business.
*** Total taxation is the sum of the rows in bold.
# Total taxation expressed as a % of published CSO GDP at current prices values.

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

The need for a wider tax base is a lesson painfully learnt by Ireland during the past number of years. A disastrous combination of a naïve housing policy, a failed regulatory system and foolish fiscal policy and economic planning caused a collapse in exchequer revenues. It is only through a determined effort to reform Ireland's taxation system that these mistakes can be addressed and avoided in the future. The narrowness of the Irish tax base resulted in almost 25 per cent of tax revenues disappearing, plunging the exchequer and the country into a series of fiscal policy crises. As shown in table 4.1, tax revenues collapsed from over €59 billion in 2007 to €45 billion in 2009; it has since increased to almost €47 billion in 2011.

While a proportion of this decline in overall taxation revenue is related to the recession, a large part is structural and requires policy reform. As detailed in chapter 2, *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' (Eurostat, 2008:5). Such increases are certainly feasible and are unlikely to have any significant negative impact on the economy in the long term. As a policy objective, Ireland should remain a low-tax economy, but not one incapable of adequately supporting the economic, social and infrastructural requirements necessary to support our society and complete our convergence with the rest of Europe.

Table 4.2: Projected current tax revenues, 2013-2016

	2013 €m	2014 €m	2015 €m	2016 €m
Customs	250	255		
Excise Duties*	4,720	4,815		
Capital Gains Tax	390	400		
Capital Acquis. Tax	405	380		
Stamp Duties	1,310	1,475		
Income Tax **	15,730	17,045		
Corporation Tax	4,355	4,380		
Value Added Tax	10,365	10,740		
Property / Local Tax	300	550		
Total#	**37,825**	**40,040**	**42,285**	**43,985**

Source: Department of Finance, Budget 2014: C15, C18.

Notes: * Excise duties include carbon tax and motor tax revenues.

**Including USC.

#These figures do not incorporate other tax sources including revenues to the social insurance fund and local government charges. These are incorporated into the totals reported in table 4.3 below.

Looking to the years immediately ahead, Budget 2014 provided some insight into the expected future shape of Ireland's current taxation revenues and this is shown in table 4.2. The Budget provided a detailed breakdown of current taxes for 2013 and 2014 and overall projections for 2015-2016. Over the next three years, assuming these policies are followed, overall current revenue will climb to almost €44 billion.

The Governments April 2013 *Stability Programme Update* also set out projections for the overall scale of the national tax-take (as a proportion of GDP).The document initially looked out to 2016 and then modelled a 'medium-term budgetary objective' out to 2019. These figures are reproduced in table 4.3 and have been used to calculate the cash value of the overall levels of tax revenue expected to be collected. While the estimates in the table are based on the tax-take figures from the *Stability Programme Update* and the national income projections in it, the documents provided limited details on the nature and composition of these figures.

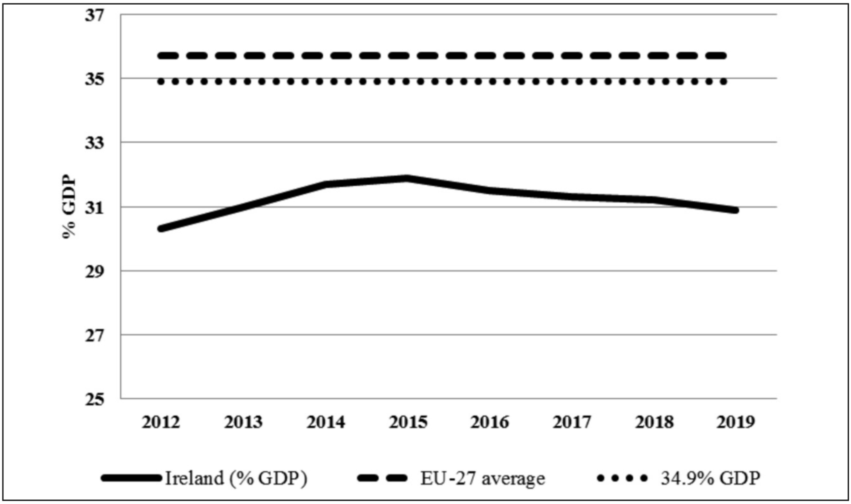
It should be borne in mind that over recent years the Department's projections for the overall taxation burden have continually undershot the end-of-year outcomes. However, even taking the Department's projections as the likely outcome, Chart 4.1 highlights just how far below average EU levels (assuming these remain at a near record low of 35.7 per cent of GDP) and the *Social Justice Ireland* target (34.9 per cent of GDP) these taxation revenue figures are. Table 4.3's Tax Gap, the difference between the 34.9% benchmark and Government's planned level of taxation, stands at €5.5 billion in 2014 and averages at €6.7 billion per annum over the next six years.

Table 4.3: Ireland's projected total tax take and the tax gap, 2012-2019

Year	Tax as % GDP	Total Tax Receipts	The Tax Gap
2012	30.3%	49,569 7	,525
2013	31.0%	52,049	6,548
2014	31.7%	55,245	5,577
2015	31.9%	57,914	5,446
2016	31.5%	59,574	6,430
2017	31.3%	61,442	7,067
2018	31.2%	63,882	7,576
2019	30.9%	66,304	8,583

Source: Calculated from Department of Finance SPU (2013: 49, 50, 53).
Notes: * Total tax take = current taxes (see table 4.1 and 4.2) + 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 were equal to 34.9% of GDP.

Chart 4.1: Ireland's Projected Taxation Levels to 2015 and comparisons with EU-27 averages and Social Justice Ireland target



Source: Calculated from Eurostat (2013: 172) and Department of Finance SPU (2013: 49, 50, 53).
Note: The EU-27 average was 35.7% of GDP in 2011 and this value is used for all years.

Future taxation needs

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

National debt has increased from a level of 25 per cent of GDP in 2007 - low by international standards - to 124 per cent of GDP in 2013, a figure which the Department of Finance expects will represent it peak (2013: C19). Despite favourable lending rates and payback terms, there remains a recurring cost to service this large national debt – costs which have to be financed by current taxation revenues. Furthermore, the erosion of the National Pension Reserve Fund (NPRF) through using it to fund various bank rescues (over €20 billion) has transferred the liability for future public sector pensions onto future exchequer expenditure. Although there may be some return from a number of the rescued banks, it will be small relative to the funds committed and therefore will require additional taxation resources.

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

As an organisation that has highlighted the obvious implications of these long-terms trends for some time, *Social Justice Ireland* welcomes the development over the past year where the Government published a section of the April 2013 SPU focused on the 'long-term sustainability of public finances'.

Research by Bennett et al (2003), the OECD (2008) and the ESRI (2010) have all provided some insight into future exchequer demands associated with healthcare and pensions in Ireland in the decades to come. The Department of Finance drew on the recent European Commission publication entitled '*The 2012 Ageing Report: Economic and budgetary projections for the EU27 Member States (2010-2060)*'. Table 4.4 summarises some of its baseline projections for Ireland. Over that period the report anticipates an increase in the elderly population (65 years +) from 11.5 per cent of the population in 2010 to 21.9 per cent in 2060. Over the same period, the proportion of those of working age will decline as a percentage of the population and the old-age dependency ratio will increase from approximately six people of working age for every elderly person today to three for every elderly person in 2060 (EU Commission, 2012: 399-401; Department of Finance, 2013:42).

While these increases imply a range of necessary policy initiatives in the decades to come, there is an inevitability that an overall higher level of taxation will have to be collected.

Table 4.4: Projected Age Related Expenditure, as % GDP 2010-2060

Expenditure areas	2010	2020	2030	2040	2050	2060
Total pensions	**9.3**	**11.5**	**11.4**	**12.5**	**14.3**	**15.0**
of which:						
Social security pensions	*7.5*	*9.0*	*9.0*	*10.0*	*11.4*	*11.7*
Old-age /early pensions	*5.6*	*7.0*	*7.0*	*7.9*	*9.4*	*9.7*
Other pensions	*1.9*	*1.9*	*1.9*	*2.0*	*2.0*	*2.0*
Public Service pensions	*1.8*	*2.5*	*2.4*	*2.5*	*2.9*	*3.3*
Health care	**7.3**	**7.2**	**7.7**	**8.1**	**8.2**	**8.3**
Long-term care	**1.1**	**1.3**	**1.5**	**1.9**	**2.3**	**2.6**
Education	**6.3**	**7.1**	**6.5**	**6.0**	**6.5**	**6.4**
Other age-related (JA etc)	**2.6**	**3.1**	**2.0**	**1.5**	**1.4**	**1.3**
Total age-related spending	**26.6**	**30.2**	**29.1**	**30.0**	**32.7**	**33.6**

Source: Department of Finance (2013:43) and European Commission (2012:400)

Is a higher tax-take problematic?

Suggesting that any country's tax take should increase normally produces negative responses. People think first of their incomes and increases in income tax, rather than more broadly of reforms to the tax base. Furthermore, proposals that taxation should increase are often rejected with suggestions that they would undermine economic growth. However, a review of the performance of a number of economies over recent years sheds a different light on this issue. For example, in the years prior to the current international economic crisis, Britain achieved low unemployment and higher levels of growth compared to other EU countries (OECD, 2004). These were achieved simultaneously with increases in its tax/GDP ratio. In 1994 this stood at 33.7 per cent and by 2004 it had increased 2.3 percentage points to 36.0 per cent of GDP (it stands at 36.1 per cent in the latest figure, see Annex 4). Furthermore, in his March 2004 Budget the then British Chancellor Gordon Brown indicated that this ratio would reach 38.3 per cent of GDP in 2008-09 (2004:262); it subsequently reached 37.6 per cent in 2008 before the economic crisis took hold. His announcement of these increases was not met with predictions of economic ruin or doom for Britain and its economic growth remained high compared to other EU countries (IMF, 2004 & 2008).

Taxation and competitiveness

Another argument made against increases in Ireland's overall taxation levels is that it will undermine competitiveness. However, the suggestion that higher levels of taxation would damage our position relative to other countries is not supported by international studies of competitiveness. Annually the World Economic Forum publishes a *Global Competitiveness Report* ranking the most competitive economies across the world.[31]

Table 4.5 outlines the top fifteen economies in this index for 2013-14 as well as the ranking for Ireland (which comes 28th). It also presents the difference between the size of the tax-take in these, the most competitive, economies in the world, and Ireland, for 2012.[32]

Only two of the top fifteen countries, for which there is data available, report a lower taxation level than Ireland: Switzerland and the US. All the other leading competitive economies collect a greater proportion of national income in taxation. Over time Ireland's position on this index has varied, most recently rising from 31st to 28th, although in previous years Ireland had been in 22nd position. When Ireland has slipped back the reasons stated for Ireland's loss of competitiveness included decreases in economic growth and fiscal stability, poor performances by public institutions and a decline in the technological competitiveness of the economy (WEF, 2003: xv; 2008:193; 2011: 25-26; 210-211). Interestingly, a major factor in that decline is related to underinvestment in state funded areas: education; research; infrastructure; and broadband connectivity. Each of these areas is dependent on taxation revenue and they have been highlighted by the report as necessary areas of investment to achieve enhanced competitiveness.[33] As such, lower taxes do not feature as a significant priority; rather it is increased and targeted efficient government spending.

A similar point was expressed by the Nobel Prize winning economist Professor Joseph Stiglitz while visiting Ireland in June 2004. Commenting on Ireland's long-term development prospects, he stated that "all the evidence is that the low tax, low service strategy for attracting investment is short-sighted" and that "far more

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[31] Competitiveness is measured across 12 pillars including: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods markets efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation. See WEF (2013: 541-545) for further details on how these are measured.

[32] This analysis updates that first produced by Collins (2004: 15-18).

[33] A similar conclusion was reached in another international competitiveness study by the International Institute for Management Development (2007).

important in terms of attracting good businesses is the quality of education, infrastructure and services." Professor Stiglitz, who chaired President Clinton's Council of Economic Advisors, added that "low tax was not the critical factor in the Republic's economic development and it is now becoming an impediment".[34]

Table 4.5: Differences in taxation levels between the world's 15 most competitive economies and Ireland.

Competitiveness Rank	Country	Taxation level versus Ireland
1	Switzerland	-0.1
2	Singapore	*not available*
3	Finland	+15.8
4	Germany	+9.3
5	United States	-4.0
6	Sweden	+16.0
7	Hong Kong SAR	*not available*
8	Netherlands	+10.3
9	Japan	+0.3
10	United Kingdom	+6.9
11	Norway	+13.9
12	Taiwan, China	*not available*
13	Qatar	*not available*
14	Canada	+2.4
15	Denmark	+19.7
28	**IRELAND**	-

Source: World Economic Forum (2013:16)

Notes:
a) Taxation data from OECD (2013) for the year 2012 except for the Netherlands and Japan where the taxation data is for 2011.
b) For some countries comparable data is *not available*.
c) The OECD's estimate for Ireland in 2010 = 28.283 per cent of GDP

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

Reforming and broadening the tax base

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

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

Tax Expenditures / Tax Reliefs

Minimum Effective Tax Rates for Higher Earners

Corporation Taxes

Site Value Tax

Second Homes

Taxing Windfall Gains

Financial Transactions Tax

Carbon Taxes

Tax Expenditures / Tax Reliefs

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

The most recent tax expenditure data was published in 2012 by the Revenue Commissioners and covers the tax year 2010 (2012:17-24). In summarising this data, Collins (2013:15-19) noted that the top 30 tax breaks involve revenue forgone of €17 billion. Added to this were the tax break costs of legacy property tax reliefs (€386 million in 2010) and a series of smaller tax expenditures for which the Revenue do not have any data estimates. In their 2010 review, Collins and Walsh (2010) found that 32 per cent of the total number of tax breaks were lacking cost estimates.

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

Both the Commission on Taxation (2009:230) and Collins and Walsh (2010:20-21) have also highlighted and detailed the need for new methods for evaluation/introducing tax reliefs. We strongly welcome these proposals, which are similar to the proposals the directors of *Social Justice Ireland* made to the Commission in written and oral submissions. The proposals focus on prior evaluation of the costs and benefits of any proposed expenditure, the need to collect detailed information on each expenditure, the introduction of time limits for expenditures, the creation of an annual tax expenditures report as part of the Budget process and the regular scrutiny of this area by an Oireachtas committee. We believe that these proposals should be adopted as part of the necessary reform of this area.

There is further potential to reduce the cost in this area. Recipients of these tax expenditures use them to reduce their tax bills, so it needs to be clearly understood that this is tax which is being forgone. *Social Justice Ireland* has highlighted a number of these reforms in our pre-Budget Policy Briefings, *Budget Choices*, and will further address this issue in advance of Budget 2015. During the past year we have highlighted the need to reform the most expensive tax break, which is associated with pensions. In a report commissioned by *Social Justice Ireland*, Larragy showed that standard rating the pension tax break, combined with a small number of other adjustments, would provide sufficient revenue to fund the introduction of a universal pension for all aged over 65 years (Larragy, 2013).

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

Minimum Effective Tax Rates for Higher Earners

The suggestion that it is the better-off who principally gain from the provision of tax exemption schemes is underscored by a series of reports published by the Revenue Commissioners entitled *Effective Tax Rates for High Earning Individuals* and

Analysis of High Income Individuals' Restriction. These reports provided details of the Revenue's assessment of the top earners in Ireland and the rates of effective taxation they incur.[35] The reports led to the introduction of a minimum 20 per cent effective tax rate as part of the 2006 and 2007 Finance Acts for all those with incomes in excess of €500,000. Subsequently, Budgets have revised up the minimum effective rate and revised down the income threshold from where it applies – reforms we have welcomed as necessary and long-overdue. Most recently, the 2010 Finance Bill introduced a requirement that all earners above €400,000 pay a minimum effective rate of tax of 30 per cent. It also reduced from €250,000 to €125,000 the income threshold where restrictions on the use of tax expenditures to decrease income tax liabilities commence.

The documentation accompanying Budget 2014 included the latest Revenue Commissioners analysis of the operation of these new rules using data for 2011 (Revenue Commissioners, 2013). Table 4.6 gives the findings of that analysis for 286 individuals with income in excess of €400,000. The report also includes information on the distribution of effective income tax rates among the 857 earners with incomes between €125,000 and €400,000.

Table 4.6: The Distribution of Effective Income Tax Rates among those earning in excess of €125,000 in 2011 (% of total)

Effective Income Tax Rate	Individuals with incomes of €400,000+	Individuals with incomes of €125,000 - €400,000
0%-5%	0%	1.63%
5% < 10%	0%	10.74%
10% < 15%	0%	17.62%
15% < 20%	0%	19.72%
20% < 25%	0%	26.02%
25% < 30%	20.63%	23.45%
30% < 35%	79.02%	0.70%
35%< 40%	0%	0.12%
> 40%	0.35%	0%
Total Cases	**286**	**857**

Source: Revenue Commissioners (2013).

Notes: Effective rates are for income taxation only as the reliefs are off-set against these liabilities. They do not include tax paid under the USC and PRSI.

[35] The effective taxation rate is calculated as the percentage of the individual's total pre-tax income that is liable to income tax and that is paid in taxation.

Social Justice Ireland welcomed the introduction of this scheme which marked a major improvement in the fairness of the tax system. The published data indicate that is seems to be working well for those above an income of €400,000. However, between €125,000 and €400,000 there are still surprisingly low effective income taxation rates being reported; half of these individuals pay less than 20 per cent of their income in income taxes. Such an outcome may be better than in the past, but it still has some way to go to reflect a situation where a fair contribution is being paid.

The report also includes average effective taxation rates paid by these individuals where both income taxes and USC are included. It states that the average effective tax rate faced by earners above €400,000 in 2011 was 39.7 per cent, equivalent to the amount of income tax and USC paid by a single PAYE worker with a gross income of €130,000 in that year. Similarly, the average income tax and USC effective tax rate faced by people earning between €125,000 - €400,000 in 2011 (28.8 per cent) was equivalent to the amount of income tax paid by a single PAYE worker with a gross income of approximately €55,000 in that year. The contrast in these income levels for the same overall rate of income taxation brings into question the fairness of the taxation system as a whole.

Social Justice Ireland believes that it is important that Government continues to raise the minimum effective tax rate so that it is in-line with that faced by PAYE earners on equivalent high-income levels. Following Budget 2014 a single individual on an income of €125,000 gross will pay an income tax and USC effective tax rate of 39.3 per cent; a figure which suggests that the minimum threshold for high earners has potential to adjust upwards over the next few years. We also believe that Government should reform the High Income Individuals' Restriction so that all tax expenditures are included within it. The restriction currently does not apply to all tax breaks individuals avail of, including pension contributions. This should change in Budget 2015.

Corporation Taxes

In Budget 2003 the standard rate of corporation tax was reduced from 16 per cent to 12.5 per cent, at a full year cost of €305m. This followed another reduction in 2002, which had brought the rate down from 20 per cent to 16 per cent. At the time the total cost in lost revenue to the exchequer of these two reductions was estimated at over €650m per annum. Serious questions remain concerning the advisability of pursuing this policy approach. Ireland's corporation tax rate is now considerably below the corresponding rates in most of Europe. Windfall profits are flowing to a sector that is already extremely profitable. Furthermore, Ireland's low rate of corporation tax is being abused by multi-national companies which channel profits through units, often very small units, in Ireland to avail of the lower Irish rate of tax. In many cases this is happening at a cost to fellow EU members' exchequers and with little benefit in terms of jobs and additional real economic activity in Ireland. Understandably, Ireland is coming under increasing pressure to reform this system.

There is no substantive evidence in any of the relevant literature to support the contention that corporations would leave if the corporate tax rate was higher – at 17.5 per cent for example. Furthermore, the logic of having a uniform rate of corporation tax for all sectors is questionable. David Begg of ICTU has stated, “there is no advantage in having a uniform rate of 12.5 per cent corporation tax applicable to hotels and banks as well as to manufacturing industry” (2003:12). In the last few years there has been some improvement in this situation with special, and higher, tax rates being charged on natural resource industries and non-trading income. *Social Justice Ireland* welcomes this as an overdue step in the right direction.

As the European Union expands corporation tax competition is likely to intensify. Already Bulgaria has set its rate at 10 per cent and others continue to reduce their headline rates and provide incentives targeted at reducing the effective corporate tax rate. Over the next decade Ireland will be forced to either ignore tax rates as a significant attraction/retention policy for foreign investors, which would be a major change in industrial policy, or to follow suit, despite the exchequer costs, and compete by further cutting corporation tax. Sweeney has warned of a dangerous situation in which Ireland could end up “leading the race to the bottom” (2004:59). The costs of such a move, in lost exchequer income, would be enormous.

An alternative direction could be to agree a minimum effective rate for all EU countries. Given the international nature of company investment, these taxes are fundamentally different from internal taxes and the benefits of a European agreement which would set a minimum effective rate are obvious. They include protecting Ireland’s already low rate from being driven down even lower, protecting the jobs in industries which might move to lower taxing countries and protecting the revenue generated for the exchequer by corporate taxes. *Social Justice Ireland* believes that an EU wide agreement on a minimum effective rate of corporation tax should be negotiated and this could evolve from the current discussions around a Common Consolidated Corporate Tax Base (CCCTB). *Social Justice Ireland* believes that the minimum rate should be set well below the 2012 EU-27 average headline rate of 23.2 per cent but above the existing low Irish level.[36] A headline rate of 17.5 per cent and a minimum effective rate of 10 per cent seem appropriate. This reform would simultaneously maintain Ireland’s low corporate tax position and provide additional revenues to the exchequer. Were such a rate in place in Ireland in 2013, corporate tax income would have been between €1.2 billion and €1.7 billion higher – a significant sum given the current economic challenges.

[36] Data from Eurostat (2013:38).

The recent attention given to the abuses of the international corporate tax system, whereby some highly profitable multinational are paying very small amounts of profit taxes and in some cases none, further strengthens the need to address effective corporate tax rates. *Social Justice Ireland* welcomes the attention the OECD is now giving this issue via its Base Erosion and Profit Shifting (BEPS) project (OECD, 2013). It is important that this work leads to the emergence of a transparent international corporate finance and corporate taxation system where multinational firms pay a reasonable and credible effective corporate tax rate.

Site Value Tax

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

In previous editions of this publication we have reviewed this proposal in greater detail.[37] There has also been a number of research papers published on this issue over the past decade.[38] Overall they point towards a recurring site value tax that is fairer and more efficient than other alternatives. *Social Justice Ireland* believes that the introduction of a site value tax would be a better alternative than the current Government value based local property tax. A site value tax would lead to more efficient land use within the structure of social, environmental and economic goals embodied in planning and other legislation.

Second Homes

A feature of the housing boom of the last decade was the rapid increase in ownership of holiday homes and second homes. For the most part these homes remain empty for at least nine months of the year. It is a paradox that many were built at the same time as the rapid increases in housing waiting lists (see chapter 7).

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37 See for example the 2013 edition of the Socio-Economic Review pages 132-134.

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

Results from Census 2011 indicated that since 2006 there had been a 19 per cent increase in the number of holiday homes, with numbers rising from 49,789 in 2006 to 59,395 in 2011. The Census also found that overall, the number of vacant houses on Census night was 168,427 (April 2011) – some of which are also likely to be second homes.

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

The introduction of the Non Principal Private Residence (NPPR) charge in 2009 was a welcome step forward. However, notwithstanding subsequent increases, the charge was very low relative to the previous and on-going benefits that are derived from these properties. It stood at €200 in 2013 and was abolished under the 2014 Local Government Reform Act.

While second homes are liable for the local property tax, as are all homes, *Social Justice Ireland* believes that second homes should be required to make a further annual contribution in respect of the additional benefits these investment properties receive. We believe that Government should re-introduce this charge and that it should be further increased and retained as a separate substantial second homes payment. An annual charge of €500 would seem reasonable and would provide additional revenue to local government of approximately €170 million per annum.

Taxing Windfall Gains

The vast profits made by property speculators on the rezoning of land by local authorities was a particularly undesirable feature of the recent economic boom. For some time *Social Justice Ireland* has called for a substantial tax to be imposed on the profits earned from such decisions. While this may not be an issue in Ireland at this time of austerity, it is best to make the system fairer before any further unearned gains are reaped by speculators. Re-zonings are made by elected representatives supposedly in the interest of society generally. It therefore seems appropriate that a sizeable proportion of the windfall gains they generate should be made available to local authorities and used to address the ongoing housing problems they face (see chapter 7). In this regard, *Social Justice Ireland* welcomes the decision to put such a tax in place. The windfall tax level of 80 per cent is appropriate and, as table 4.7 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. We fear that when the property market recovers in years to come there will be lobbying for this tax to be reduced or removed. Government should anticipate and resist this.

Table 4.7: Illustrative examples of the Operation of an 80% Windfall Gain Tax on Rezoned Land

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

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

Financial Transactions Tax

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

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

- In April 2013 the average daily turnover in global foreign exchange markets was US$5.3 trillion; an increase of almost 35 per cent since 2010 and 331 per cent since 2001.

- The major components of these activities were: \$2.046 trillion in spot transactions, \$680 billion in outright forwards, \$2.228 trillion in foreign exchange swaps, \$54 billion currency swaps, and \$337 billion in foreign exchange options and other products.
- 58 per cent of trades were cross-border and 42 per cent local.
- The vast majority of trades involved four currencies: US Dollar, Euro, Japanese Yen and Pound Sterling.
- Most of this activity (60 per cent) occurred in the US and UK.
- The estimated daily foreign exchange turnover for Ireland was US\$11 billion.

The Tobin tax, first proposed by the Nobel Prize winner James Tobin, is a progressive tax, designed to target only those profiting from speculation. It is levied at a very small rate on all transactions but given the scale of these transactions globally, it has the ability to raise significant funds.

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. In September 2011 the EU Commission proposed an FTT and subsequently updated this proposal in February 2013. It suggested that an FTT would be levied on transactions between financial institutions when at least one party to the transaction is located in the EU. 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%. The rates are minimums as countries with the EU retain the right to set individual tax rates and could choose higher levels if desired. Overall the Commission projects that the FTT would raise €30-35 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 assisting Ireland and other developed countries to fund overseas aid and reach the UN ODA target (see chapter 13). According to the United Nations, the amount of annual income raised from a Tobin tax would be enough to guarantee to every citizen of the world basic access to water, food, shelter, health and education. Therefore, this tax has the potential to wipe out the worst forms of material poverty throughout the world.

Social Justice Ireland believes that the time has come for Ireland to support the introduction of a financial transactions tax.

Carbon Taxes

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

While *Social Justice Ireland* welcomed the introduction of this tax, it regrets the lack of accompanying measures to protect those most affected by it, in particular low income households and rural dwellers. *Social Justice Ireland* believes that as the tax increases the Government should be more specific in defining how it will assist these households. Furthermore, there is a danger that given the difficult fiscal circumstances Ireland now finds itself in, any increases in the carbon tax over the next few years may divert from the original intention of encouraging behavioural change, towards a focus on raising revenue.

Building a fairer taxation system

The need for fairness in the tax system was clearly recognised in the first report of the Commission on Taxation more than 25 years ago. It stated:

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

The need for fairness is just as obvious today and *Social Justice Ireland* believes that this should be a central objective of the current reform of the taxation system. While we recognise that many of the reforms below can only occur once the current crisis in the exchequer's finances has been resolved, we include them here because they represent necessary reforms that would greatly enhance the fairness of Ireland's taxation system. This section is structured in six parts:

Standard rating discretionary tax expenditures
Keeping the minimum wage out of the tax net
Favouring changes to tax credits rather than tax rates and tax bands
Introducing Refundable Tax Credits
Reforming individualisation
Making the taxation system simpler

Standard rating discretionary tax expenditures

Making all discretionary tax reliefs/expenditures only available at the standard 20 per cent rate would represent a crucial step towards achieving a fairer tax system. If there is a legitimate case for making a tax relief/expenditure available, then it should be made available in the same way to all. It is inequitable that people on higher incomes should be able to claim certain tax reliefs at their top marginal tax rates while people with less income are restricted to claim benefit for the same relief at the lower standard rate of 20 per cent. The standard rating of tax expenditures, otherwise known as reliefs, offers the potential to simultaneously make the tax system fairer and fund the necessary developments they are designed to stimulate without any significant macroeconomic implications. [39]

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

Keeping the minimum wage out of the tax net

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

The fiscal and economic crisis of 2008-13 lead to Government reversing this policy, first via the income levy in second Budget 2009, then via the Universal Social Charge (USC) in Budget 2011 and via a PRSI increase in Budget 2013. Since Budget 2012 the USC is charged on all the income of those who earn more than €10,036 per annum. Using the unadjusted minimum wage of €8.65 per hour, the threshold implies that a low-income worker on the minimum wage and working more than 23 hours per week (earning €199 per week) is subject to the tax. *Social Justice Ireland* believes that this threshold is far too low and unnecessarily depresses the income and living standards of the working poor. Budget 2012 raised the entry point for the USC from €4,004 per annum to €10,036 per annum, a move welcomed by Social *Justice Ireland.* However, the imposition of the USC at such low income levels raises a very small amount of funds for the exchequer. Forthcoming Budgets should continue to raise the point at which the USC commences and in the years to come, as more resources become available to the Exchequer, *Social Justice Ireland* will urge Government to restore the policy of keeping the minimum wage fully outside the tax net.

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

Favouring changes to tax credits rather than tax rates and tax bands

Social Justice Ireland believes that any future income tax changes should be focused on changes to tax credits rather than tax bands and tax rates. This is more desirable in the context of achieving fairness in the taxation system.

To emphasise this point, table 4.8 presents a comparison of reforms to tax rates, tax credits and tax bands. In all cases the policy examined would carry a full year cost of approximately €205 million.[40] The reforms examined are for changes to the 2014 income taxation system and are:

- a decrease in the top tax rate from 41% to 40% (full year cost €205 million)
- an increase in the personal tax credit of €108 with commensurate increases in couple, widowed parents and lone parents credit (full year cost €205 million)
- an increase in the standard rate band (20% tax band) of €1,350 (full year cost €202.5 million)

Table 4.8: Comparing gains under three possible income tax reforms: tax rates, tax credits and tax bands (€)

Gross Income	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Decrease in the top tax rate from 41% to 40% (full year cost €205 million)						
Single earner	0	0	172	422	672	922
Couple 1 earner	0	0	82	332	582	832
Couple 2 earners	0	0	0	94	344	594
Increase in the personal tax credit of €108 (full year cost €205 million)						
Single earner	0	108	108	108	108	108
Couple 1 earner	0	50	216	216	216	216
Couple 2 earners	0	0	216	216	216	216
Increase in the standard rate band of €1,350 (full year cost €202.5 million)						
Single earner	0	0	283.50	283.50	283.50	283.50
Couple 1 earner	0	0	283.50	283.50	283.50	283.50
Couple 2 earners	0	0	0	567.00	567.00	567.00

Notes: All workers are assumed to be PAYE workers. For couples with 2 earners the income is assumed to be split 65%/35%. Cost estimates are based on the latest available Department of Finance income taxation ready reckoner and are applied to the structure of the 2014 income taxation system. The increase in the personal tax credit assumes a commensurate increase in the couple, widowed parents and lone parent's credit.

[40] The cost estimates are based on the most recent income tax ready reckoner available from the Department of Finance (Budget 2012). The cost estimates are unlikely to be significantly different currently.

Although all of the income taxation options cost the same, they each carry different effects on the income distribution. The fairest outcome is achieved by increasing tax credits. It provides the same value to all taxpayers across the income distribution provided they are earning sufficient to pay more than €108 in income taxes. Therefore, the increased income received by a single earner on €25,000 and on €125,000 is the same – an extra €108.

However, a decrease in the top tax rate only benefits those paying tax at that rate. Therefore, the single earner on €25,000 gains nothing from this change while those on €50,000 gain €172 per annum and those on €100,000 gain €672 per annum. The higher the income, the greater the gain. This is the least fair outcome of the three examined.

Changing the entry point to the top tax rate (i.e. increasing the standard rate band) also provides gains which are skewed towards higher incomes. A single earner on €25,000 gains nothing from this reform and it is only from individual incomes of €34,150 plus, and couples with 2 earners with gross income above €68,300, that gains are experienced. Above these thresholds the gains are the same for all single earners and couples.

In terms of fairness, changing tax credits is the best option. Government should always take this option when it has money available to reduce income taxes.

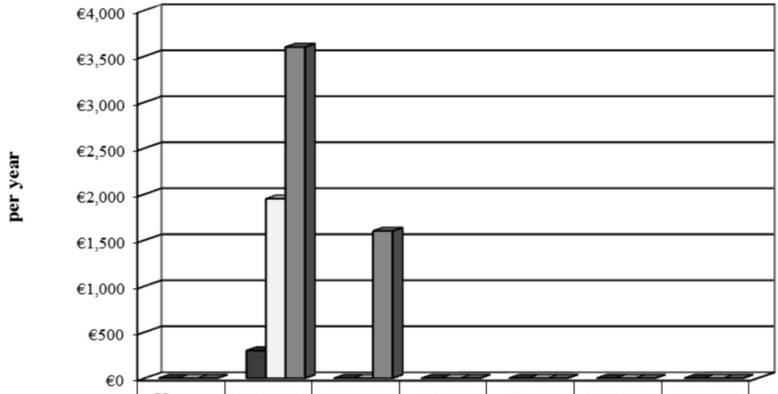
Introducing refundable tax credits

The move from tax allowances to tax credits was completed in Budget 2001. This was a very welcome change because it put in place a system that had been advocated for a long time by a range of groups. One problem persists however. If a low income worker does not earn enough to use up his or her full tax credit then he or she will not benefit from any tax reductions introduced by government in its annual budget.

Making tax credits refundable would be a simple solution to this problem. It would mean that the part of the tax credit that an employee did not benefit from would be "refunded" to him/her by the state.

The major advantage of making tax credits refundable lies in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). Chart 4.2 displays the impacts of the introduction of this policy across various gross income levels. It clearly shows that all of the benefits from introducing this policy would go directly to those on the lowest incomes.

Chart 4.2: How much better off would people be if tax credits were made refundable?



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

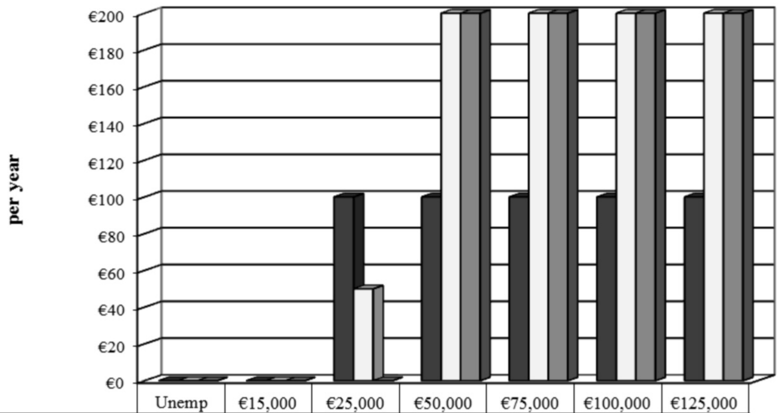
Note: * Except where unemployed as there is no earner

With regard to administering this reform, the central idea recognises that most people with regular incomes and jobs would not receive a cash refund of their tax credit because their incomes are too high. They would simply benefit from the tax credit as a reduction in their tax bill. Therefore, as chart 4.2 shows, no change is proposed for these people and they would continue to pay tax via their employers, based on their net liability after deduction of tax credits by their employers on behalf of the Revenue Commissioners. For other people on low or irregular incomes, the refundable tax credit could be paid via a refund by the Revenue at the end of the tax year. Following the introduction of refundable tax credits, all subsequent increases in the level of the tax credit would be of equal value to all employees.

To illustrate the benefits of this approach, charts 4.3 and 4.4 compare the effects of a €100 increase in the personal tax credit before and after the introduction of refundable tax credits. Chart 4.3 shows the effect as the system is currently structured – an increase of €100 in credits, but these are not refundable. It shows that the gains are allocated equally to all categories of earners above €50,000. However, there is no benefit for those workers whose earnings are not in the tax net.

Chart 4.4 shows how the benefits of a €100 a year increase in personal tax credits would be distributed under a system of refundable tax credits. This simulation demonstrates the equity attached to using the tax-credit instrument to distribute budgetary taxation changes. The benefit to all categories of income earners (single/couple, one-earner/couple, dual-earners) is the same. Consequently, in relative terms, those earners at the bottom of the distribution do best.

Chart 4.3: How much better off would people be if tax credits were increased by €100 per person?



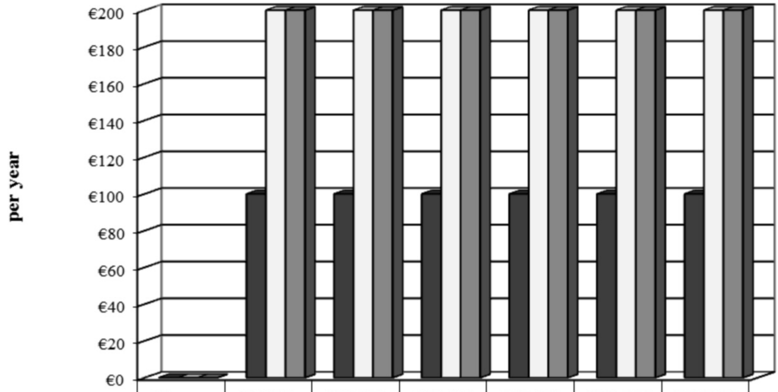
	Unemp	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Single	-	-	100	100	100	100	100
Couple 1 Earner*	-	-	50	200	200	200	200
Couple 2 Earners*	-	-	-	200	200	200	200

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

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

Outside Ireland, the refundable tax credits approach has gained more and more attention, including a detailed Brooking Policy Briefing on the issue published in the United States in late 2006 (see Goldberg et al, 2006). In reviewing this issue in the Irish context Colm Rapple stated that "the change is long overdue" (2004:140).

Chart 4.4: How much better off would people be if tax credits were increased by €100 per person and this was refundable?



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

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

During late 2010 *Social Justice Ireland* published a detailed study on the subject of refundable tax credits. Entitled '*Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits*', the study identified that the proposed system would benefit 113,000 low-income individuals in an efficient and cost-effective manner.[41] When children and other adults in the household are taken into account the total number of beneficiaries would be 240,000. The cost of making this change would be €140m. The *Social Justice Ireland* proposal to make tax credits refundable would make Ireland's tax system fairer, address part of the working poor problem and improve the living standards of a substantial number of people in Ireland. The following is a summary of that proposal:

Making tax credits refundable: the benefits

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

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

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

Details of Social Justice Ireland proposal

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

Cost of implementing the proposal

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

Major findings

- Almost 113,300 low income individuals would receive a refund and would see their disposable income increase as a result of the proposal.
- The majority of the refunds are valued at under €2,400 per annum, or €46 per week, with the most common value being individuals receiving a refund of between €800 to €1,000 per annum, or €15 to €19 per week.
- Considering that the individuals receiving these payments have incomes of less than €15,600 (or €299 per week), such payments are significant to them.
- Almost 40 per cent of refunds flow to people in low-income working poor households who live below the poverty line.
- A total of 91,056 men, women and children below the poverty threshold benefit either directly through a payment to themselves or indirectly through a payment to their household from a refundable tax credit.
- Of the 91,056 individuals living below the poverty line that benefit from

refunds, most, over 71 per cent receive refunds of more than €10 per week with 32 per cent receiving in excess of €20 per week.

- A total of 148,863 men, women and children above the poverty line benefit from refundable tax credits either directly through a payment to themselves or indirectly (through a payment to their household. Most of these beneficiaries have income less than €120 per week above the poverty line.
- Overall, some 240,000 individuals (91,056 + 148,863) living in low-income households would experience an increase in income as a result of the introduction of refundable tax credits, either directly through a refund to themselves or indirectly through a payment to their household.

Once adopted, a system of refundable tax credits as proposed in this study would result in all future changes in 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.

Reforming individualisation

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

Given the current form of individualisation, couples with one partner losing his/her job end up even worse off than they would have been had the current form of individualisation not been introduced. Before individualisation was introduced, the standard-rate income-tax band was €35,553 for all couples. Above that, they would start paying the higher rate of tax. Now, the standard-rate income-tax band for single-income couples is €41,800 while the band for dual-income couples covers a maximum of a further €23,800 (up to €65,600). If one spouse (of a couple previously earning two salaries) leaves a job voluntarily or through redundancy, the couple loses the value of the second tax band.

Making the taxation system simpler

Ireland's tax system is not simple. Bristow (2004) argued that "some features of it, notably VAT, are among the most complex in the world". The reasons given to justify this complexity vary but they are focused principally around the need to reward particular kinds of behaviour which is seen as desirable by legislators. This, in effect, is discrimination either in favour of one kind of activity or against another. There are many arguments against the present complexity and in favour of a simpler system.

Discriminatory tax concessions in favour of particular positions are often very inequitable, contributing far less to equity than might appear to be the case. In many circumstances they also fail to produce the economic or social outcomes which were being sought and sometimes they even generate very undesirable effects. At other times they may be a complete waste of money, since the outcomes they seek would have occurred without the introduction of a tax incentive. Having a complex system has other down-sides. It can, for example, have high compliance costs both for taxpayers and for the Revenue Commissioners.

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

Key Policy Priorities on Taxation

Social Justice Ireland believes that Government should:

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

Policy priorities under each of these headings are listed below.

Increase the overall tax take

- Move towards increasing the total tax take to 34.9 per cent of GDP (i.e. a level below the low tax threshold identified by Eurostat).

Broaden the tax base

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

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

Develop a fairer taxation system

- Apply only the standard rate of tax to all discretionary tax expenditures.
- Adjust tax credits and the USC so that the minimum wage returns to falling outside the tax net.
- Make tax credits refundable.
- Recognise that in terms of fairness, changing tax credits is the best option. Government should always take this option when it has money available to reduce income taxes.
- Ensure that individualisation in the income tax system is done in a fair and equitable manner.
- Integrate the taxation and social welfare systems.
- Begin to monitor and report tax levels (personal and corporate) in terms of effective tax rates.
- Develop policies which allow taxation on wealth to be increased.
- Ensure that the distribution of all changes in indirect taxes discriminate positively in favour of those with lower incomes.
- Adopt policies to simplify the taxation system.
- Poverty-proof all budget tax packages to ensure that tax changes do not further widen the gap between those with low income and the better off.