SOCIAL JUSTICE IRELAND

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Social Justice Ireland

Policy Briefing June 2014

Budget Choices

Inside this issue:

The Irish Government has choices as it decides what to include and exclude in Budget 2015. In this Policy Briefing *Social Justice Ireland* sets out three scenarios each of which would reduce government borrowing to below 3% of GDP in 2015. How much adjustment, if any, is required to reach that target depends on economic growth in Ireland and beyond in 2015. Recent statistics published by Government suggest the scenario ahead is positive. On the other hand the OECD's latest analysis suggests that economic trade across the world may be slowing down.

The core scenario set out here is based on Government needing to reduce borrowing by €1bn to achieve its borrowing target. The second and third are developed on the basis of Government needing to reduce borrowing by €2bn or by nothing to reach its target. In all scenarios Government does have choices.

These choices should ensure the Budget:

- Is fiscally sound;
- Improves tax equity;
- Protects the vulnerable;
- Improves governance; and
- Makes decisions that are sustainable.

There is an urgent need to reverse the regressive nature of each of the Budgets introduced by the current Government since they came to office in 2011. This requires that special care be taken to protect the vulnerable in Budget 2015. To date Government's approach has protected the rich at the expense of the rest of society. It is imperative that the transfer of resources from low and middle income people to the rich and powerful be reversed.

Key Proposals

If Government needs to reduce borrowing by €1bn it should, among other things:

- Dramatically increase financing for:
  - ⇒ social housing;
  - ⇒ rural broadband;
  - ⇒ adult literacy;
  - ⇒ disability services.
- Introduce a universal state pension.
- Address the working poor issue by making tax credits refundable.
- Increase the PAYE tax credit by €5 a week.
- Increase core social welfare payments by €5 a week.

To finance its debt reduction it should:

- Introduce a minimum effective corporate tax rate of 6%.
- Make tax reliefs available only at the standard rate.
- Introduce a financial transactions tax.

If Government does not require a reduction of €1bn to achieve its borrowing target it should provide additional funding towards social housing, broadband, disability and health proposals we include under our core scenario together with an investment of €200m in a new Rural Entrepreneur Scheme.

If, on the other hand, an adjustment of €2bn is required we propose that the effective corporate tax rate should be set at 9%.

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

A Budget along these lines in 2015 would be good for the economy, good for the vulnerable and good for Ireland. It would also be fiscally sound. It would be fair and just and would be seen as such.

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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 the common good.
Comments, observations and suggestions on this briefing are welcome.

Ireland: Some Key Diagrams and Tables

Chart 1: GDP Growth, 1995-2015

Chart 2: National Debt as % GDP, 1980-2016

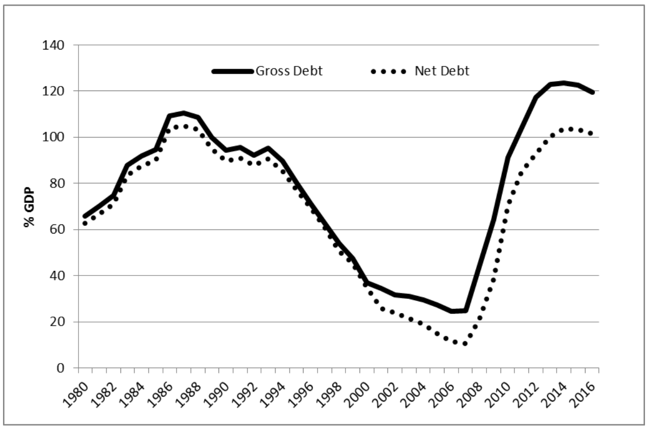


Chart 3: Unemployment, 2000-2014 (000s)

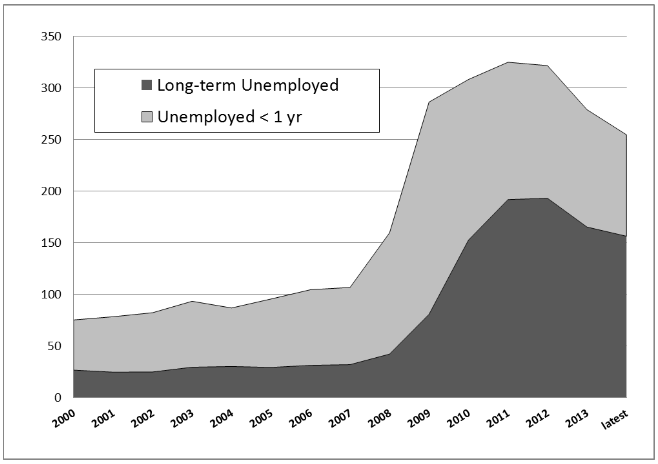


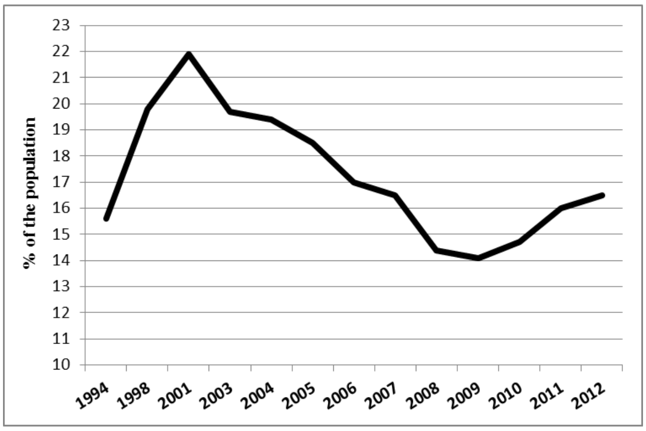
Table 1: Effective Taxation Rates for selected household types, 2000 / 2008 / 2014

	2000	2008	2014
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: Minimum Weekly Disposable Income Required to Avoid Poverty in 2014

Household containing:	Weekly line	Annual line
1 adult	€202.21	€10,544
1 adult + 1 child	€268.95	€14,024
1 adult + 2 children	€335.68	€17,503
1 adult + 3 children	€402.41	€20,983
2 adults	€335.68	€17,503
2 adults + 1 child	€402.41	€20,983
2 adults + 2 children	€469.14	€24,462
2 adults + 3 children	€535.87	€27,942
3 adults	€469.14	€24,462

Chart 4: % Population at Risk of Poverty, 1994-2012



Data on this page is from: OECD *Economic Outlook*; CSO *National Income and Expenditure Annual Results*; CSO *Quarterly National Accounts*; Department of Finance *Stability Programme Update*; IMF *World Economic Outlook*; CSO *QHNS*; and CSO *SILC*.

The Social and Economic Context of Budget 2015

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 Ireland's emergence from the Troika programme late last year. Budget 2015 is the first Budget since 2008 that has been framed outside a context of immediate fiscal and economic collapse. That is not to say that significant challenges do not remain, a point we address in greater detail later in this document. The continuing gap between taxes and spending requires some fiscal adjustment. Similarly, the economy remains weak and dependent on external growth rather than internal activity. The legacy of the policies of recent years continues to weigh heavily on household spending while investment remains at levels far below that which is required for long-term growth and short-term recovery. The Budget is also framed in the context of growing poverty levels; a sustained problem with child poverty; ongoing literacy challenges; high unemployment, structural long-term unemployment, high emigration, lengthening social housing waiting lists, growing pressure on public services, high national debt levels and low overall tax levels.

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

Real GDP growth 2014*	2.1%	Minimum Wage (per hour / 39hr week)	€8.65 / €337.35
Real GDP growth 2015*	2.7%	Minimum Social Welfare Payment (1 adult)	€188.00 per week
Real GNP growth 2014*	2.7%	Average Gross Household Income (2012)	€1,001.63 per week
Real GNP growth 2015*	2.3%	Average Disposable H-hold Income (2012)	€776.26 per week
2014 General Gov Balance (%GDP)*	- 4.8%	Poverty line 1 Adult (week / year)	€ 202.21 / €10,544
Gross National Debt (%GDP) 2007	25.1%	Poverty line 2 Adults (week / year)	€335.68 / €17,503
Gross National Debt (%GDP) 2014*	121.4%	Poverty line 1 Adult + 1 Child (week / year)	€268.95 / €14,024
Gross National Debt (%GDP) 2015*	120.0%	Poverty line 2 A + 2 Children (week / year)	€469.14 / €24,462
Exchequer Capital Investment 2015 (2014)	€4.2bn (€4.5bn)	% of population living in poverty (numbers)	16.5% (756,591)
Investment as a % GDP 2013	11.3%	% of children living in poverty (numbers)	18.8% (220,411)
Total Taxation as % GDP 2014*	32.4%	% of population experiencing deprivation 2007	11.8% (2+ basic items)
%Tax on €25,000 income (single / 2 earners)	15.1% / 2.5%	% of population experiencing deprivation 2012	26.9% (2+ basic items)
%Tax on €60,000 income (single / 2 earners)	33.9% / 17.7 %	LA Housing Waiting list - households	89,872
%Tax on €100,000 income (single / 2 earners)	41.1% / 30.2%	LA Housing Waiting list - persons	approx. 225,000
Corporation Tax rate	12.5%	% on LA housing waiting list for 2 years +	60%
Capital Gain Tax rate	33%	Homelessness (Census 2011)	3,808
Value of top 30 Tax Reliefs (per annum)	€17 billion	Illiteracy rate of adult population (2013 data)	18%
Labour Force 2014	2,146,300	% Waste Landfilled (2011)	47.6%
Employment 2014	1,888,200	Greenhouse Gas Emissions v. Kyoto target	-2.7%
Unemployment 2014 /rate (ILO Basis)	258,100 / 12%	Population 2011 Census	4,588,252
Long-Term Unemployment 2014 / rate	156,200 / 7.3%	Population 2016 *	4.691m
Youth Unemployment 2014 /rate	47,500 / 25.3%	Population 2021* / 2041*	4.901m / 5.701m
Net migration (year to April 2013)	-33,100	Inflation rate (CPI) 2014*	+0.3%
Net migration Irish Nationals (2008-2013)	-80,100	Inflation rate (CPI) 2015*	+1.0%

Sources: Department of Finance *Stability Programme Update,* Collins (2013), CSO *QNHS*, CSO *Population and Migration Estimates,* CSO *SILC*, CSO *Census 2011*, OECD *PISA 2013*, CSO *Population and Labour Force Projections (assumption M2F1)*, Department of Environment, Heritage and Local Government *Housing Statistics*, CSO *Environment Indicators 2014,* ESRI *Quarterly Economic Commentary* and Social Justice Ireland *Socio-Economic Review*. **Note:** * = projection;

Smaller Budget Adjustment Likely

The scale of the adjustment required in Budget 2015 is dictated by Government commitments to reach the long-standing Troika target of having a 3 per cent budget deficit in 2015. Over recent years, all budgets have been focused on reducing borrowing to reach this target.

Initially Government have indicated that they plan a €2 billion adjustment in Budget 2015 to reach this figure. However, there are a number of factors that point towards the need for a smaller adjustment on this occasion. These include:

- the growth in employment has generated additional taxation revenues for the exchequer and these will continue into 2015 delivering additional income and consumption taxes over and above those previously anticipated
- the reductions in unemployment have generated expenditure savings over and above those anticipated for 2015.
- higher growth and redefinitions of how GDP is measured (revising it upwards) also reduce the scale of the adjustment needed to reach the budget target.
- the introduction of water charges from October 2014 provides 15 months of revenue in 2015 - representing approximately €450m of any 2015 adjustment.

Despite continued suggestions from the Department of Finance that the adjustment for 2015 will be €2 billion; the above factors suggest otherwise. Taken together, they imply a smaller adjustment - we anticipate of the order of €1 billion.

In that regard, throughout the rest of this document we outline a set of alternative policies government can choose in Budget 2015. Our baseline presentation is for an adjustment of €1 billion. However, on page 18, we also outline situations where the adjustment might be larger (€2 billion) or smaller (€0 billion).

As *Social Justice Ireland* has continually pointed out, to date the burden has

> ***...this document clearly highlights that fairer choices are feasible and possible***

fallen hardest on those who could least afford to carry it - those who were very far removed from the banking and speculative gambles that are at the root of Ireland's economic crash. Therefore, in the proposals outlined throughout the rest of this document, the focus is 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.

Irrespective of the scale of the final adjustment announced by Government for the forthcoming Budget, this document clearly highlights that fairer choices are feasible and possible in Budget 2015.

Economy Still Weak

Relative to the situation a few years ago, the Irish economy is much improved. Employment is increasing while unemployment is falling; exports are solid although there are impacts from reforms in the pharmaceutical sector; tourism is recovering; agriculture is slowly expanding; construction is recovering; borrowing costs are low; and overall growth is positive. However, a closer look at the economy reveals a number of weaknesses which require attention if growth and recovery are to be real and sustainable. These include:

- Depressed household spending (the largest component of economic activity) reflecting uncertainty, the ongoing effects of the cuts and tax increases of recent years and static incomes (both welfare and earnings).
- Limited investment - so that overall levels of investment are unsustainably low.
- High long-term unemployment and the prospect of this continuing for some time.
- High levels of national and personal debt—much of it linked to the legacy of badly run and regulated banks.
- Unresolved issues from the property crash including the collapse in social housing provision.

Coupled to these, the external economic outlook remains uncertain with slow economic recovery in other European countries. Overall, the economy remains weak and a challenge for Budget 2015 is to adopt policies to boost recovery and address these remaining weaknesses.

Carryover from Budget 2014

A feature of the calculation of the budgetary adjustment is that the Government may count any additional revenues which derive from decisions taken in Budget 2014, but which have yet to be realised in additional income flows to the exchequer, as part of the 2015 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 2014, the reform of DIRT and exit taxes on life assurances yielded €105m in additional taxes in 2014 and will provide a 'full year' yield of an additional €35m (total €140m) in 2015. Similarly, the Budget 2014 reform of tax relief on medical insurance provided additional revenue of €94m in 2014 and an additional €33m in a full year. The carryover effect can also be negative to the overall tax yield where for example a measure is announced in Budget 2014 and the tax cost (generally via a tax break) is given in the following year. Budget 2014's reform of the film relief tax break imposed no additional tax revenue cost on the exchequer in 2014 but it will result in a decrease of €15m in the 2015 tax take. These and other additional yields/losses, the Budget 2014 carryover, are counted as part of the adjustment for Budget 2015.

Taken together, figures from the Department of Finances' *Summary of 2014 Budget Measures* suggest that the carryover effect for Budget 2015 will be negative and approximately €76m. A negative figure implies that the Minister for Finance has to raise revenue to replace these losses as part of the budgetary adjustment.

Guiding vision and policy framework

Having a guiding vision of Ireland's desired future is a prerequisite in the policy-making process if decisions made are to be integrated and coherent and all working to reach the same destination.

Yet there is an extraordinary reluctance to address the question of Ireland's future, in a comprehensive and inclusive way, to be specific about the kind of society to be built from the trauma of recent years.

While Government focuses almost exclusively on its oft-repeated mantra of building "the best small country in the world in which to do business", and most policy developments are justified on the basis of that target, there is little or no discussion of what Ireland should look like ten years from now, of how the common good and the well-being of this and future generations are to be promoted and attained in a fair and sustainable manner. Yet these are critical issues.

While there might be general agreement on eliminating poverty, unemployment and waiting lists (for housing or healthcare) there is little or no discussion on the steps to be taken if these and many other desirable outcomes are to be achieved.

Being a good place in which to do business is of course a means towards these desirable ends. However, Ireland needs a great deal more than that; in particular it needs a robust public debate, involving all its people, to address these issues.

Social Justice Ireland fully acknowledges Ireland's difficult fiscal position in recent times. We also accept that Ireland must pay its way.

However, we believe strongly that there were alternatives to the approach the Irish Government followed, alternatives that would have led to fewer job losses and greater protection of the vulnerable while rescuing the economy and moving Ireland towards a desirable and sustainable future.

Even within the confines of the EU/IMF programme there were real choices; these choices have become even more important as government can no longer attribute its choices to the Troika. We now face stark choices about the amount of resources that our health service and our welfare state should receive, about the distribution of wealth and power in our society, and about the level of taxation required to furnish the resources necessary for a compassionate and civilised society. It is time to have a real debate about our economic and social priorities in the years ahead; whether, for example, it is time to reduce taxes for higher-rate taxpayers, or whether it is time to invest in our social services and infrastructure and strengthen our social security system; whether we want to return to a privately-financed system of housing provision that leads to vacant homes, broken banks and record numbers on the social housing list, or whether we wish to create a society that guarantees quality accommodation for all; whether we wish the standard of healthcare to depend on the contents of our wallets, or the common demands of our humanity. Whether, in a word, we wish to collectively pursue the public purpose, or return to the petty politics of private greed.

Social Justice Ireland has long advocated a new guiding vision for Irish society; one based on the values of human dignity, equality, human rights, solidarity, sustainability and the pursuit of the common good. These values are at the core of the vision for a nation in which all men, women and children have what they require to live life with dignity and to fulfil their potential: including sufficient income; access to the services they need; and active inclusion in a genuinely participatory society. These are not minority views as is sometimes stated, but reflect the aspirations of the majority of Irish citizens.

Ireland cannot provide high-quality public services to all while allowing total public expenditure to fall as a percentage of GDP. If there is an improvement in various indicators additional revenue should be used to improve services and protect the vulnerable.

A new policy framework is required; one that recognises the need to increase taxes towards the European average in order to fund the public services that we need, while implementing new criteria for policy evaluation.

We suggest there are five basic components to such a framework:

1. **Macroeconomic stability**, which requires a stabilisation of Ireland's debt levels, fiscal and financial stability and sustainable economic growth, and an immediate boost to investment, which has collapsed during the crisis.
2. A **just taxation** system, which would require an increase in the overall tax-take to the European average; such an increase must be implemented equitably and in a way that reduces income inequality.
3. **Social protection**, the strengthening of social services and social infrastructure, the prioritisation of employment, and a commitment to quantitative targets to reduce poverty.
4. **Governance** of our country, which requires new criteria in policy evaluation, the development of a rights-based approach, and the promotion of deliberative democracy.
5. **Sustainability** which can be developed through the introduction of measures to slow down climate change and protect the environment, the promotion of balanced regional development, and promotion of new economic and social indicators to measure performance, alongside traditional national accounting measures such as GNP, GDP and GNI.

A Policy Framework for a New Ireland

1. Ensuring Macroeconomic Stability	2. Moving To Just Taxation	3. Enhancing Social Protection	4. Reforming Governance	5. Creating 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 and deliberative democracy	Indicators of progress and wellbeing

Guiding Principle: Protecting the Vulnerable

In making choices in Budget 2015 Government should be guided by the principle of protecting the needs of the vulnerable.

16.5% of Ireland's population is at risk of poverty with incomes below €10,544 for a single person or €24,462 for a household of four.

16.6% of all adults in Ireland with an income below the poverty line are employed. A further 37% are 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, tax increases or reductions in the public services upon which many depend. Any such cuts would simply deepen their poverty and further undermine their attempts to live their lives with dignity.

Giving priority to the vulnerable

In practice this would mean increasing **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.

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 long-term 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. 12).

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).

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 achieving the long standing goal of 0.7% of GNP in foreign aid (p. 20).

Who are the Poor? Poverty in Ireland - latest data

The most up-to-date data available on poverty in Ireland comes from the 2012 *SILC* survey, conducted by the CSO (published in April 2014). Chart 4 (p. 2) presented the key trends over recent years. Using the EU poverty line set at 60 per cent of median income, the findings reveal that in 2012 just over 16 out of every 100 people in Ireland were living in poverty; equivalent to just over 750,000 individual including 220,411 children aged under 18.

Looking over the data for the past few years shows that poverty peaked, at 21.9 per cent of the population, in 2001 before falling steadily until 2008. Over that period (most particularly between 2004 and 2008) consistent Budget increases in social welfare payments removed large number of individual and households from poverty.

The recent SILC report further highlights the important role social welfare payments play in reducing the incidence of poverty in Ireland every year. It found that without social welfare payments Ireland's poverty rate in 2012 would have been 50.3 per cent. The actual poverty figure (16.5 per cent) reflects the fact that social welfare payments reduced poverty by almost 34 percentage points. Put another way, social welfare payments lifted one-third of the population out of poverty.

Table 4 examines the number of adults in poverty in Ireland classified by their principal economic status - the main thing that they do. The calculations show that one-sixth of Ireland's adults who have an income below the poverty line are employed - a group often classified as the working poor. Overall, 41 per cent of adults who are at risk of poverty in Ireland are associated with the labour market (classified as in work or unemployed).

In framing Budget 2015, Government must ensure that they do not further exacerbate Ireland's poverty problem. Our proposals (p. 16 & 17) are designed to designed to avoid this.

Table 4: Composition of adults in poverty, 2003-2012 (%)

	2003	2009	2012
At work	21.4	19.8	16.6
Unemployed	10.2	17.8	25.0
Students and school attendees	11.5	20.2	18.7
On home duties	30.1	24.9	20.3
Retired	12.0	6.5	7.9
Unable to work as ill/disabled	12.2	8.8	9.1
Other	2.5	2.1	2.4
Total	**100.0**	**100.0**	**100.0**
National Poverty rate (% pop)	**19.7**	**14.1**	**16.5**

Source: Calculated from CSO SILC 2012 (2014: 21) and other CSO SILC reports.

Further Cuts to Public Spending should be Avoided

According to the current plans from Government, Budget 2015 will be the tenth fiscal adjustment to the Irish economy since the current economic crisis began in 2008. To date almost €31 billion, equivalent to 18 per cent of GDP, has been directly removed by Government from the economy through either tax increases or spending cuts. The scale of this adjustment reflects the depth and duration of the current crisis and its enormous impact across society.

In Budget 2015, Government intends to remove a further €2 billion from the economy in the final phase of 'adjustments' in Budget 2015. If implemented as planned, the overall adjustments from 2008-2015 will total almost €32.5 billion (Table 5) - equivalent to 18.5% of GDP forecast for 2015. As we have outlined on page 4 we believe the required adjustment in Budget 2015 is smaller at €1 billion.

The data in the table reflects the weighting of the budgetary measures since 2008 towards expenditure cuts rather than tax increases. It also reflects a policy persistence with a harsh austerity approach which produced sustained high unemployment, static long-term unemployment, limited confidence or growth in the domestic economy and significant decreases in the quantity and quality of public services. Further cuts to public spending, as planned in Budget 2015, may deliver (in the eyes of the Department of Finance) the desired fiscal target, but they come at a high and unaffordable societal price. Simply, further cuts to public spending, which in effect imply reductions to public services, should not be a part of Budget 2015 irrespective of the scale of its fiscal adjustment.

In this Policy Briefing *Social Justice Ireland* makes detailed, costed proposals showing how it is possible to make the required adjustment, even if it is €2bn, and simultaneously, to protect spending on social services and on the infrastructure that underpins these services.

Consequently **we now strongly urge Government not to cut expenditure in Budget 2015 except when it is in service of reform. Financing for services and for the services infrastructure must be protected (p. 8).**

Table 5:Budget Adjustments, 2008-2015 (€m)

Adjustment Description	Tax ↑	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	€880	€1,600	€2,480	**€30,339**
Budget 2015*	€700	€1,300	€2,000	**€32,339**
Total of Adjustments	**€10,880**	**€21,459**		
% Division of Adjustments	**33.6%**	**66.4%**		

***Projected**

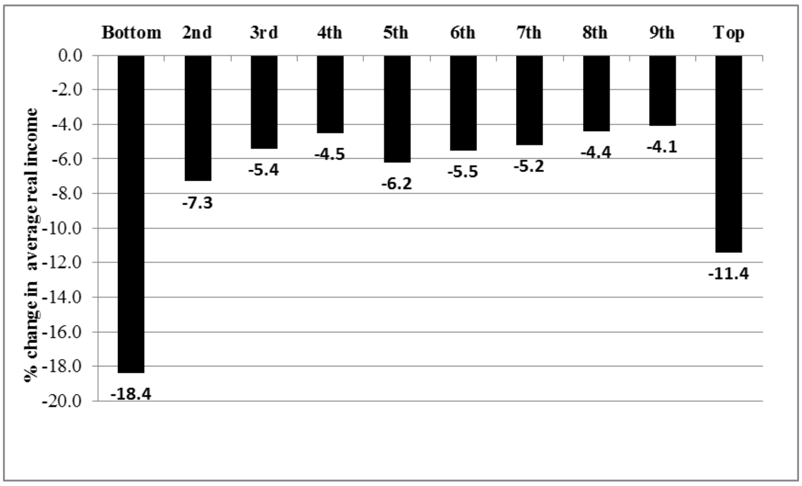
Who took the hits during Ireland's Bailout?

Reflecting table 5 above, the scale of adjustments over the past six years has been substantial and has impacted, in different and similar ways, on all households across the state.

An ESRI study published in late 2013 estimated the income impact over the period from 2008-2011 (the period for which the most up-to-date data was available). Looking at average disposable incomes across the income deciles, the study identified the distribution of these changes (see chart 5). Disposable income measures income after taxes and social welfare income and represents the money individuals have to live on. The data has been equivalised; adjusted for household size and composition issues, and adjusted for price changes.

The income results capture changes to earnings, welfare and taxes over the period and show that it was the bottom decile that took the greatest hit. On average disposable incomes fell by 18.4 per cent. The top decile took the second biggest decrease followed by the 2nd decile. The result highlights the inequitable impact of policy during recent years. As the analysis looks only at income, it does not include decreases in public services which will have a further regressive impact on those on the lowest incomes.

Chart 5: Percentage change in average real disposable income by decile, 2008-2011.



Source: Callan el al (2013:9) using equivalised income.

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 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.

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.

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.

Proposal:

Social Justice Ireland *proposes that Government conduct a long-term impact assessment of decisions made in Budget 2015 and over recent Budgets to ensure no further deterioration in Ireland's social support infrastructure.*

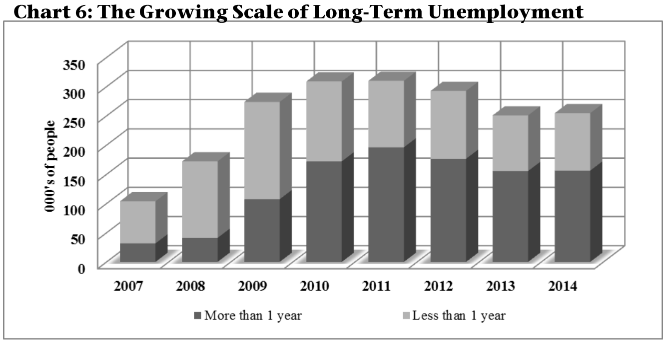
Long-Term Unemployment Crisis

Ireland has a long-term unemployment crisis. Over recent years the proportion of long-term unemployed (unemployed for more than 1 year) has doubled - from 30 per cent in 2007 to over 60 per cent in 2014. The latest data, for quarter 1 2014, shows that there are 156,200 long-term unemployed in Ireland. Of these, most are males (107,600) with females accounting for 48,500 of the total.

The experience of the 1980s showed the dangers and long-lasting implications of an unemployment crisis characterised by high long-term unemployment rates. It remains a major policy failure that Ireland's current level of long-term unemployment has been allowed to increase so rapidly in recent years. Furthermore, it is of serious concern that to date Government policy has given limited attention to the issue.

While there is welcome job creation and unemployment reductions occurring in the economy, Government should not continue to ignore this issue. Consequently, Budget 2015 should commit to funding targeted retraining and activation measures focused exclusively on the long-term unemployed.

Chart 6: The Growing Scale of Long-Term Unemployment



Public Participation Networks (PPNs)

There is a profound democratic deficit in Ireland and in the EU itself. A great many people point to decisions being made on a wide range of issues that impact on them but without any real consultation or engagement.

More and more, citizens are insisting that new mechanisms must be developed to ensure that all can be engaged in a real way in shaping decisions that impact on them.

June 1, 2014 saw the introduction of a new structure of local government in Ireland. Among the decisions made by Government was one to introduce Public Participation Networks (PPNs) in all Local Authorities. The establishment of such networks was the main recommendation of the Working Group on Citizen Engagement established by the Minister for the Environment in September 2014.

These PPNs will engage all voluntary, environmental and social inclusion organisations in the Local Authority (LA) area. They will facilitate communication between the LA and local organisations. They are tasked with ensuring transparency and accountability in the selection of representatives of the social inclusion, voluntary and environmental sectors for county-wide committees and structures.

Each County's PPN will have its own secretariat which will be responsible for communication and organisation. This work will require resourcing.

Social Justice Ireland proposes an allocation of €300,000 for each county's PPN in Budget 2015. This will be money well spent in ensuring the development of an active citizenship structure involving all organisations in these sectors in every county in Ireland.

Proposal on PPNs

Provide dedicated core funding for each county's PPN of €300,000.

Total allocation: €10m

Taxation Issues

Low tax-take Highlights €4.7bn 'Tax Gap'

Despite significant increases in the tax-take from households (both directly and indirectly) in the last six Budgets, the scale of collapse in Ireland's tax revenues has been dramatic. Tax revenues collapsed by over €12b between 2007 and 2012 with the largest fall in areas such as capital gains taxes, stamp duties, corporation taxes, VAT and PRSI. Decreases in income taxes have been 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. Looking to the years immediately ahead, table 6 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 four years, assuming the policies signalled by Government are followed, overall tax receipts will climb to €64.2bn. However, even with these increases Ireland will remain a low tax economy with its total 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 €4.7bn over the next four 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 6: Ireland's projected total tax take and the tax gap, 2013-2018*

Year	Tax as % GDP	Total Tax Receipts	The Tax Gap**
2013	31.7%	€52,004m	€5,250m
2014	32.4%	€54,554m	€4,209m
2015	32.6%	€56,871m	€4,012m
2016	32.4%	€58,944m	€4,548m
2017	32.2%	€61,365m	€5,146m
2018	32.2%	€64,271m	€5,389m

Source: Calculated from Department of Finance, SPU April 2014.

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. The Irish Fiscal Advisory Council (IFAC) propose an alternative measure of national income for measuring the tax-take (H). The 34.9% of GDP target is equivalent to approximately 38% of their H measure.

Reforming 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.

The most recent tax expenditure data was published in 2012 by the Revenue Commissioners and covers the tax year 2010. In summarising this data, Collins (2013) 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 which the Revenue do not have any data estimated for. During the past year the Revenue Commissioners have also provided an estimate of the exchequer savings from standard rating all discretionary tax reliefs available at the marginal rate. On an 2009 basis, they estimated this would save €1bn - with the major savings from capital allowances and pensions tax breaks.

Social Justice Ireland believes that Budget 2015 should standard rate all non-pension related tax reliefs costing more than €10m (see p.14 for our pension proposal) and generate €400m in additional tax revenues. We also believe that the Budget 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.

Proposal: Standard rate discretionary tax reliefs to raise €400m and broaden the high income individuals restriction.

Corporate Tax Contributions

Over the past two years, a growing international focus on the way multi-national corporations (MNC) manage their tax affairs has lead to the OECD commencing a major examination of the system known as the Base Erosion and Profits Shifting (BEPS) process. It is intended to establish the manner and methods by which MNC exploit international tax structures to minimise the tax they pay.

Despite a low headline rate (12.5%), there is limited data on the effective rate of corporate taxation in Ireland. A report from the Department of Finance in 2014 pointed towards four methods of calculating that rate. Although each were valid methods it favoured one which reported an effective rate of 11.9 per cent on 'taxable income'. As 'taxable income' excludes income removed or offset from taxation through various tax breaks, it is unsurprising that the measure is close to the headline rate. However, in practical terms, the provision of tax breaks and exemptions is likely to imply corporations enjoy a substantial reduction in their tax liability. Our calculations suggest it's as low as 3% for many large corporations while Small and Medium Enterprises (SMEs) pay close to 12.5% for the most part.

Social Justice Ireland believes that the issue of corporate tax contributions is principally one of fairness. Budget 2015 should commit Ireland to adopting the forthcoming OECD reforms.

Proposal: Introduce an effective corporate tax rate of 6% which would raise additional revenue in excess of €500m in 2015

Taxation Issues

Fairness in Changing Income Tax - 3 options compared

Possible changes to income taxation levels have been highlighted as a potential policy reform in Budget 2015. *Social Justice Ireland* believes that the best reform to the income taxation system would be to make tax credits refundable. Such a reform would mean that the full value of tax credits goes to everybody who has an earned income - we outline our proposal on this issue on page 11.

Earlier this year we published a paper examining the fairness of three possible income tax reform options open to Government - we outline a summary of that analysis here (the full paper is available on our website).

Table 7 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. 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)

Although all of the income taxation options cost the same, they each carry different effects on income distribution. The fairest outcome of the three examined 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 individual and couples with income above the previous standard band thresholds (€32,800 for a single person and €65,600 for a couple) that gain. Above the new entry points for the top rate of tax (€34,150 for a single person and €68,300 for a couple) the gains are the same for all single earners and couples.

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.

Although all of the income taxation options cost the same, they each carry different effects on income distribution.

The fairest outcome of the three examined is achieved by increasing tax credits.

This analysis derives from a *Social Justice Ireland* occasional paper entitled ***'Fairness in changing income tax—an examination of three options'*** published in March 2014. The complete document is available on our website: *www.socialjustice.ie*

Proposal: Increase the PAYE tax credit by €5 a week (€260 a year). This would cost the Exchequer €306m in 2015. While everyone receives the same amount of cash benefit, the increase is proportionately larger for lower paid employees.

Table 7: Comparing gains under three possible income tax reforms: tax rates, tax credits and tax bands (€ per annum)

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

Source: *Social Justice Ireland* Occasional Paper (March 2014)

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 a 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.

Taxation Issues

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. According to the most recent data (see p. 6) 16.6 per cent of all those in poverty are at work.

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.

Proposal: *Social Justice Ireland* proposes that tax credits be made refundable. This would cost €140 million in 2015.

Empty Houses & Undeveloped Land

The shortage of residential accommodation (in the owner-occupied, rental and social housing sectors) is of serious concern and destabilising for society. Elsewhere in this *Policy Briefing* we outline proposals for the prioritisation of social housing (see p. 12). However, we believe Budget 2015 should also adopt measures to address the numbers of empty houses and the existence of underdeveloped zoned land across the country.

In the context of a shortage of housing stock, building new units is not the entire solution. There remains a large number of empty units across the country, something reflected in the 2011 Census data; and the quantity of empty houses has probably grown since.

Policy should be designed to reduce the number of these units and penalise those who own units and leave them vacant for more than a six month period. We propose that Budget 2015 introduce a levy on empty houses of €200 per month with the revenue from this charge collected and kept by local authorities.

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

Proposal: Introduce a levy on empty houses of €200 per month and introduce a site value tax of €2,000 per hectare per annum on underdeveloped sites as set out above. This would net €75m per annum.

USC on Income over €100,000

The Universal Social Charge (USC) was introduced in Budget 2011. It is structured across a broad income base with limited tax exemptions available.

Over recent years the tax has yielded €3.1b in 2011, €3.8b in 2012 and €3.9b in 2013.

At the time of its introduction the tax included a levy on self-employment earners with income in excess of €100,000. For these earners, all income above that threshold was subject to an additional 3 per cent USC - raising the rate on this income to 10 per cent. The legislation associated with this additional USC measure incorporated a clause so that this additional levy expires at the end of 2014.

Social Justice Ireland believes it would be inequitable and unfair to proceed with this plan in Budget 2015. The cost to the exchequer in lost revenue would be of the order of €100m.

It would also represent a significant regressive tax reform which would deliver substantial increases in disposable income to those with the most resources in Irish society.

Instead we propose that the USC levy on self-employment income in excess of €100,000 is renewed indefinitely in Budget 2015 and extended to all incomes in excess of €100,000 irrespective of its source.

Proposal: Renew indefinitely the USC levy on self-employment income in excess of €100,000 and extends this to all earned income in excess of €100,000. This would yield over €171m in additional tax revenue in 2015.

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 EU Commission 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 a lower rate of 0.01%.

To date 11 of the 28 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 funding Ireland and other developed countries to fund overseas aid and reach the UN ODA target.

Proposal: *Social Justice Ireland* proposes that Budget 2015 should commit Ireland to adopting the current EU Commission proposals on a FTT to yield a net €150m (after the loss of stamp duty revenue).

Socially Orientated Investment Stimulus Needed

A legacy of the recent economic crisis is that the Irish economy has moved to a situation of serious underinvestment.

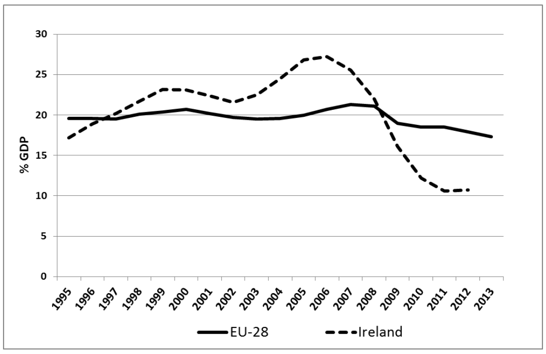
In 2012, the latest year that comparable data is available, Ireland recorded the lowest level of investment across the EU-28 (10.7% of GDP). As Chart 7 shows, over recent years Ireland decreases its investment levels to well below any historic EU average or Irish figure experienced during most of the past two decades. An analysis by NESC identified that since 2007 public investment declined by 40 per cent - with Government investment down 50 per cent and state commercial companies down 20 per cent.

Without a recovery in investment there will be limited progress in addressing Irelands chronic unemployment problem. In late 2013 *Social Justice Ireland* outlined a proposal for a €7bn investment stimulus focused on 'growth, jobs and recovery'. It argued for a multi-annual programme targeted on nine key socio-economic areas:

- renewable energy
- social housing (see below)
- primary care facilities
- energy efficiency
- education facilities
- early childhood care and education
- community nursing facilities
- non-motorway roads
- water services

Budget 2015 should commit Government to adopting this programme, one which is superior to the smaller long-term plan currently in place.

Chart 7: Investment as % GDP, Ireland & EU-28



Social housing crisis must be addressed immediately

Ireland has had a social housing crisis for several years. The number of *households* on waiting lists is rising dramatically and is now close to 100,000. The number of people who are homeless has also grown dramatically. Low and middle income households are finding it extremely difficult to secure appropriate accommodation.

Government has no credible plan to address this social housing crisis. It has, however, promised to produce a new housing strategy later this year.

More than one million households in Ireland own their own home. More than half of these currently have a mortgage. A further half a million households rent their accommodation.

Substantial state support

The state provides substantial support to both mortgage holders and those who rent. It provides direct housing support to about 130,000 households through local authorities. Some of these accommodation units are rented from the private sector. Close to another 100,000 households who rent from the private sector are supported by the state through rent supplement payments.

The total state housing support is about €1bn. A further €1.1bn is provided through tax benefits to home owners and investors, including the cost of providing mortgage interest relief. Yet, despite this level of annual investment by the state Ireland does not have a cost-effective, sustainable system to guarantee the provision of appropriate housing on the scale required.

Policy development in this area needs to begin by recognising that up to one third of Ireland's households will not be able to access appropriate accommodation through the market alone. On the other hand, given the difficult current fiscal situation and the likely limitations that government will face in coming years due to the conditions imposed by the Fiscal Compact, Government will not be able to borrow on the scale needed to provide the housing required. It is for these reasons that *Social Justice Ireland* has for some time argued that three key changes are required:

1. **Public policy should be based on seeing a house as a home and not as an investment.**

Professor P.J. Drudy has cogently argued that when housing is seen as a commodity the market is seen as the ideal provider. This approach by government has seen the development of a housing system which provides speculative profit for those with resources while excluding people on low incomes. This in turn has generated a housing system that perpetuates inequality and segregation. Appropriate accommodation should be seen as a fundamental right. This should be recognised in the forthcoming Government Housing Strategy.

2. **A new approach is required to secure the multi-billion euro investment required to provide appropriate accommodation to those who are homeless and those who are on waiting lists.**

Ireland needs a not-for-profit National Housing Agency which would assume charge of the current stock of local authority housing and a range of other issues related to social housing. Such a body could have responsibility for securing the finance required to provide social housing on the scale required. It could also take on the role of providing finance to voluntary and cooperative housing agencies.

3. **Ireland needs to develop a cost rental system combined with effective rent regulation.**

Moving towards a cost-rental system would also be a step in the right direction. This would only be viable if a good supply of affordable accommodation to rent was available. It should be combined with security of tenure. There should also be support for social housing organisations and cooperatives (i.e. non-profit providers) in this approach.

Proposals on Social Housing

- **Increase provision for Social Housing by €250m.**
- **Establish Housing agency as set out in #2 above.**

Education

Investment is needed 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 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. For every €1 invested in children aged 0-5 there is a €7 return.

Proposal:

Social Justice Ireland *proposes that Government invest an extra €140m in quality Early Childhood Education and Care facilities and training.*

3. Adult literacy

A very significant proportion of Ireland's adult population does not possess the most basic literacy, numeracy and information processing skills considered necessary to success in the world today (OECD, 2013). Significant resources must be allocated to adult literacy programmes and second chance education through SOLAS in order to address this problem.

Proposal:

Social Justice Ireland *proposes that an extra €50m be allocated in Budget 2015 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. Almost 95% of the population is treated by the primary care system yet a net reduction of €87m in Community (demand-led) primary care schemes is provided for in the HSE Service Plan 2014.

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

Social Justice Ireland *proposes that €50m should be allocated in Budget 2015 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 2015 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 €20m allocation in Budget 2014 for community mental health teams was welcome but given the scale of the problem and the slow progress in implementing the strategy and ensuring adequate staffing levels further action is necessary.

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 2015 for this purpose.*

Universal 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 13.5% in 2012, 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 and over 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 modest 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 the 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 introduced legislation in Budget 2013 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.'*

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

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.

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 Home-maker'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 2015 (in a full year) would be not more than €714m. 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 not be more in 2016.

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, due to changes introduced 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 €714m 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* published a detailed study outlining this proposal in 2013.**

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-66	**Increased expenditure of: €714m**

Welfare Payments

Welfare Increase of €5 for core payments

Since 2010 the minimum social welfare payment has remained at €188. However, as chart 8 illustrates, since then consumer prices have not stood still and inflation increases have eroded the value of the basic jobseekers payment.

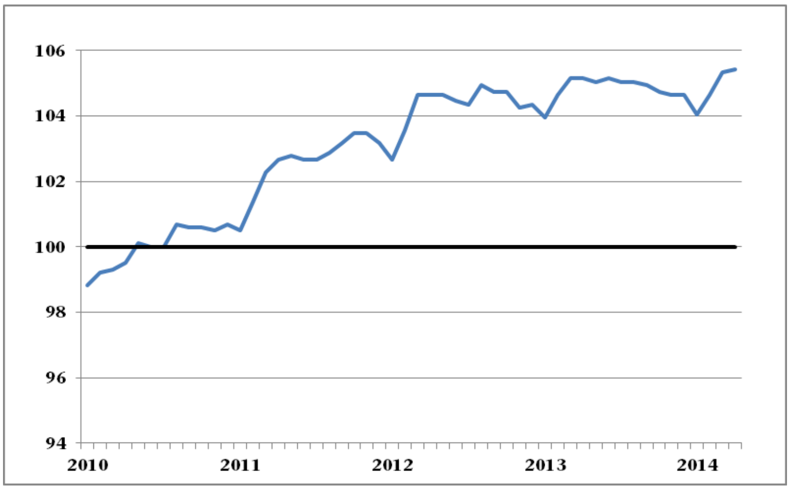
Between 2010 and 2013 inflation was 4.84 per cent - implying that a buying power of €188 in 2010 was equivalent to €197 by the end of 2013. CPI data for April 2014 suggests that since 2010 average price increases have been 5.43 per cent requiring a jobseekers payment of €198 to protect the basic living standards of welfare recipients.

Social Justice Ireland believes that Budget 2015 should address this unacceptable decrease in the living standards of those on the lowest income in society. While an immediate increase of €10 per week to the basic payment would address the gap, we recognise that that amount is unlikely to be feasible given the ongoing budgetary challenges. However, an increase of €5 would go some way towards addressing this deficit and we propose that a similar increase should be delivered in Budget 2016.

Proposal: Increase the minimum social welfare payment by €5 per week.

...inflation increases since 2010 have eroded the value of the basic jobseekers payment...

Chart 8: CPI Price Changes January 2010 to April 2014 (index = 100 for 2010)



Source: CSO CPI online database. **Note:** Average price levels in 2010 = 100

Disability

Many people with a disability have suffered the cumulative effects of a range of policies introduced as part of successive Budgets in recent years.

These include:

- Cuts to disability allowance;
- Changes in medical card eligibility criteria;
- Increased prescription charges;
- Cuts in respite services;
- Cuts to home help hours;
- Cuts in personal assistant hours;
- Cuts to other community-based supports;
- The non-replacement of front-line staff providing services to people with disabilities and their families.

The overall cut in health spending in Budget 2014 as well as specific measures (such as the increase in prescription charges) will also affect many people with disabilities and their families.

Changes announced in January 2014 to the Housing Adaptation grants Scheme may make it more difficult for some people to continue to live in their communities.

Furthermore people with disabilities experience higher everyday costs of living because of their disabilities. They are one of the groups in Irish society at greatest risk of poverty.

Overall, although those not at work due to illness or a disability only account for a small proportion of those in poverty, their experience of poverty is high.

There is a strong case to be made for introducing a non-means tested cost of disability allowance.

Furthermore, given the nature of this group *Social Justice Ireland* believes there is an on-going need for targeted policies to assist them.

These include job creation, retraining and further increases in social welfare supports.

There is also a very strong case to be made for introducing a non-means tested cost of disability allowance.

This proposal, which has been researched and costed in detail by the National Disability Authority (NDA, 2006) and advocated by Disability Federation of Ireland (DFI), would provide an extra weekly payment of between €10 and €40 to somebody living with a disability (calculated on the basis of the severity of their disability).

It seems only logical that if people with a disability are to be equal participants in society, the extra costs generated by their disability should not be borne by them alone. Society at large should act to level the playing field by covering those extra but ordinary costs.

Proposal on Disability

- **Increase investment in services for people with disabilities by €100m in 2015 to finance developments along the lines set out above.**

Table 8: Taxation: *Social Justice Ireland's* key Budget Initiatives for Budget 2015

Area	Proposal	Increase in Exchequer Income	Decrease in Exchequer Income	Balance
Carry-over	Carry-over from Budget 2014		€76m	
USC	Maintain 3% USC levy and extend it to all income in excess of €100,000 irrespective of its source	€171m		
Nutrition	Introduce tax on products high in sugar and trans fats	€15m		
Gambling	Increase the tax take from gambling	€100m		
Text messages	Introduce a tax of one third of one cent on each text sent via SMS through mobile phone or any other device	€26m		
Tax Credits	Make tax credits refundable		€140m	
PAYE	Increase the PAYE credit by €5 per week		€306m	
Pension	Standard rate the tax break on all pension contributions	€710m		
Tax Breaks	Standard rate non-pension discretionary tax reliefs costing more than €10m per annum	€400m		
R & D Tax Credit	Remove tax refund element for unused R & D credits	€112m		
Corporate sector	Introduce a minimum effective corporate tax rate of 6%	€500m		
FTT	Introduce a Financial Transactions Tax	€150m		
Empty Dwellings	Tax on empty dwellings and undeveloped land	€75m		
Water Charges	Projected revenue from 15 months water charges accruing to Government in 2015	€450m		
Totals		**€2709m**	**€522m**	**€2187m**

Table 9: Expenditure: *Social Justice Ireland's* key Budget Initiatives for Budget 2015

Area	Proposal	Decrease in Exchequer Expenditure	Increase in Exchequer Expenditure	Balance
Public Expenditure	Net savings identified in Haddington Road Agreement	€150m		
	Savings from Office of Government Procurement + Shared Services Centre for Civil Service	€198m		
	Reductions in expenditure based on the results of the Comprehensive Expenditure Report 2014	€61m		
Health	Older people programme to replace or refurbish 12-15 units with approx. 50 beds		€65m	
	Mental Health Services		€35m	
	Primary Care Teams Programme		€50m	
	Children and Family Services Programme		€50m	
Education	Introduce an income contingent loan scheme for 3rd level students to pay their fees and cover their living costs.	€445m		
	Increase funding for Adult Literacy		€50m	
	Increase funding for Early Childhood Care and Education training and facilities		€140m	
Housing	Increase provision for Social Housing		€250m	
Social Welfare	Increase core social welfare rates by €5 per week		€231m	
Disability	Invest in services for people with disabilities		€100m	
Pensions	Introduce a Universal Basic Pension from January 1 2015		€714m	
Broadband	Invest in broadband infrastructure in rural areas		€200m	
Capital Programme	Reverse planned Government consolidation in Capital Expenditure		€83m	
Third World	Increase the Aid Budget to approach UN target		€60m	
Citizen Engagement	Resource the PPN structure of local government		€10m	
Totals		**€854m**	**€2038m**	**€1184m**

If €2bn required

If an adjustment of €2bn is required in Budget 2015 then *Social Justice Ireland* proposes that the additional €1bn required be raised by introducing an effective corporate tax rate of 9%.

As part of our core projection, based on an adjustment of €1bn being required, we proposed that a minimum effective corporate rate of 6% be introduced. If this is increased to 9% it will bring in the additional €1bn required.

While Ireland's corporate tax rate is 12.5% this level of tax on profits is not paid by multi-national companies. The recent attention given to the abuses of the international corporate tax system, whereby some highly profitable multinationals are paying very small amounts of taxes on profits, 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. A fair and just international tax system for transnationals is urgently required.

Additional proposal if a fiscal adjustment of €2bn is required in Budget 2015

- **Introduce an effective tax rate of 9% on all corporate profits (increased revenue: €1bn).**
- **Leave in place all other initiatives on both income and expenditure that are set out in our core scenario on page 16-17 (where an adjustment of €1bn is assumed).**

If €0bn required

If an adjustment of €0bn is required in Budget 2015 then *Social Justice Ireland* proposes that the additional €1bn in expenditure be spent on a range of initiatives including the introduction of a new Rural Entrepreneur Scheme (€200m). We propose the remaining €800m be spent increasing the allocation to a number of key areas of infrastructure and services already identified in this Briefing and to which increased resources have already been identified in our core scenario.

Additional proposals if adjustment of €0bn is required in Budget 2015

- **Introduce a Rural Entrepreneur Scheme—€200m.**
- Increase investments proposed for key issues in our core projection as follows:

⇒ **Broadband infrastructure in rural areas: +€230m** (total new investment: €430m)

⇒ **Social housing: +€330m** (total new investment: €580m)

⇒ **Disability services: +€140m** (total new investment: €240m)

⇒ **Older people programme, mental health services, primary care teams programme and children and family services programme: +€100m** (total new investment in these four areas: €300m)

Cost of Servicing Debt - Debt Reduction Needed

At the end of 2013 Ireland's Gross National Debt stood at almost €203bn equivalent to 124 per cent of GDP. The contrast between the period before the recession is stark; in 2007 the national debt stood at €47bn (25 per cent 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.

A key legacy of this enormous increase in debt is the annual costs of servicing the debt through interest payments. Table x profiles this cost to 2018.

In 2015 costs will exceed €8bn and in 2018 they will reach €9.5bn. By itself, debt service costs has become one of the main areas of government annual expenditure.

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 2015 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.

Table 10: Ireland's Debt Costs, 2014-2018

Year	Debt cost as % GDP	Debt cost in €m
2014	4.7%	7,914
2015	4.8%	8,374
2016	4.9%	8,914
2017	4.9%	9,338
2018	4.8%	9,581

Source: Department of Finance, SPU April 2014.

Table 11: Fiscal impact of *Social Justice Ireland's* Budget proposals 2015

Area	**Impact on Government Expenditure**	**Impact on Government Revenue**	**Impact on Government Borrowing**
Increases in expenditure	€2038m		
Decreases in expenditure	€854m		
Overall change in Government Expenditure	**€1184m**		
Increases in revenue		€2709m	
Decreases in revenue		€522m	
Overall change in Government Revenue		**€2187m**	
Total impact of proposed Budget Initiatives			**€1003m**

Summary of Key Proposals

1. Reduce **borrowing** by €1bn.
2. Invest €250m in **Social Housing** and €83m in capital expenditure.
3. Invest €200m in **rural broadband** infrastructure.
4. Introduce a minimum effective **corporate tax rate** that would ensure that all corporations in Ireland pay at least 6% tax on their profits here.
5. **Make tax credits refundable** in Budget 2015. At a cost of €140m this proposal would directly benefit 113,000 low income individuals and begin to address the 'working poor' issue.
6. Maintain and extend the **USC levy of 3% to all income in excess of €100,000** irrespective of its source. This would increase revenue by €171m.
7. Increase **Social Welfare rates** by €5 in 2015.
8. Increase **the PAYE Credit** by €5 per person in 2015.
9. Introduce a **Financial Transactions Tax** which would yield €150m in 2015.
10. Introduce **a universal basic pension** payment for all people over the age of 65 from January 2015. 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 €710m in 2015 and would fund the universal basic pension payment. This would be a fairer and more equitable way of organising the pension system in Ireland.
11. 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 €26m in taxation revenue in 2015.
12. Introduce **a 'bad nutrition' tax** on the main components of junk food, fast food and soft drinks to yield €15m in 2015.
13. Invest €65m to enable 12-15 **community nursing facilities** with approximately 50 beds each to be replaced or refurbished in 2015.
14. Invest €50m for the infrastructural development of **Primary Care Teams** in 2015.
15. Invest €50m for the infrastructural development of **Children and Family Services**.
16. Invest €35m to support the development of **Community Mental Health teams**.
17. 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 2015.
18. Invest €140m in quality facilities and training for **Early Childhood Education and Care**.
19. Invest €50m in **Adult Literacy and second chance education** programmes.
20. Invest €100m in the provision of services for people with **disabilities**.
21. Increase the tax take on **online gambling** to 5% to yield €100m.
22. **Standard rate** all discretionary tax expenditures that cost over €10m per annum in Budget 2015.
23. Increase the **ODA Budget** by €60m to reach 0.45% GNP in 2015.
24. Implement savings in the **public procurement** process to yield €198m in 2015.
25. Reduce public expenditure through measures identified in the **Comprehensive Expenditure Report** 2012-2014 and the **Haddington Road** agreement.

Long-Term Public Spending Projections

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 (see p18), 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.

These new future taxation needs add 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.

An insight into the scale of these challenges is reflected in the recent *Stability Programme Update* from the Department of Finance (April 2014). Focusing on the 'long-term sustainability of public finances' its baseline projections for Ireland anticipate an increase in the elderly population (65yrs+) 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 and the old-age dependency ratio will increase from approximately 6 people of working age for every elderly person today to 3 in 2060. Taken together, the Department estimates that the cost of pensions, healthcare, long-term care, education and other age-related expenditures will rise from 26.6 per cent of GDP in 2010 to 33.6 per cent in 2060.

While these increases imply a range of necessary policy initiatives in the decades to come, there is a need to give them greater attention and begin to plan as a society for these future costs.

Overseas Development Assistance

Despite Ireland's current and recent 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 long time. Ireland's long-standing commitment to overseas development assistance has reflected a welcome societal wide recognition of this fact .

Social Justice Ireland regrets that Government abandoned its commitment to reach an ODA target of 0.7 per cent of GNP by 2015. It is of concern that Government did not even revise this target.

Budget 2015 should recommit Ireland to reaching this target by 2020 and should set out a clear pathway to achieve this target. As a first step it should increase ODA from its current level of 0.43 per cent of GDP to reach 0.45 per cent; requiring an increase of €60m in 2015.

Recent Publications and Research from *Social Justice Ireland*

Elections 2014 - Policy Briefing (published May, 2014)

Ireland and the Europe 2020 Strategy - Shadow Report (published May, 2014)

Steps Towards a Fairer Future - Socio Economic Review 2014 (published April 2014)

The European Crisis and Its Human Cost - A Call for Fair Alternatives and Solutions. (Research by *Social Justice Ireland* for Caritas Europa; published March 2014)

A Future Worth Living For - Sustainable Foundations and Frameworks. (published November 2013)

All of these are available on our website at www.socialjustice.ie
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Social Justice Ireland is an independent think tank and justice advocacy organisation that advances the lives of people and communities through providing independent social analysis and effective policy development to create a sustainable future for every member of society and for societies as a whole.

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