

CORI Justice

**Submission to the
Commission on Taxation**

June 2008

TABLE OF CONTENTS

1	INTRODUCTION	4
2	CONTEXT OF THE COMMISSION’S WORK	6
	2.1 The Current Fiscal Position	6
	2.2 Economic Change Ahead	9
	2.3 Demographic Change Ahead	10
	2.4 Social Change Ahead	14
	2.5 Future Taxation Needs	16
3	KEY CONSIDERATIONS TO INFORM THE COMMISSION’S WORK	19
	3.1 Supporting Economic Activity	19
	3.2 The Need for a Fairer Taxation System	22
	3.3 Addressing Environmental Challenges through the Taxation System	23
	3.4 Integrating the Taxation and Social Welfare System	26
	3.5 The Requirement for Evidence Based Policy Making and Evaluation	27
	3.6 Enhancing the Simplicity of the Taxation System	27
	3.7 Reporting and Promoting Effective Taxation Rates	28
4	TAXATION REFORM	31
	4.1 Reforming and Broadening the Tax Base	31
	4.1.1 Tax Expenditures / Tax Reliefs	31
	4.1.2 Corporation Taxes	39
	4.1.3 Financing Local Government	41
	4.1.4 Financial Speculation Taxes	47
	4.2 Building a Fairer Taxation System	50
	4.2.1 Standard Rating Discretionary Tax Expenditures	50
	4.2.2 Keeping the Minimum Wage Out of the Tax Net	52
	4.2.3 Increasing Tax Credits Rather Than Decreasing Tax Rates	52
	4.2.4 Increasing Tax Credits Rather Than Widening Tax Bands	54
	4.2.5 Introducing Refundable Tax Credits	55
	4.2.6 Introducing a Refundable Tax Credit For Children	60
	4.2.7 Reforming Individualisation	60

4.3	Introducing Environmental Taxes	61
4.3.1	Carbon Taxes	62
4.3.2	Cap and Share	62
4.3.3	Environmental Taxes and Poor Households	64
4.3.4	Environmental Taxation and Tax Credits	64
5	CONCLUSION	66
6	REFERENCES	67
	APPENDICES	72
	Appendix 1: Terms of Reference of the Commission on Taxation	72
	Appendix 2: Graphical Versions of Tables 1 and 2	73
	Appendix 3: Effective tax rates in Ireland, 1997-2008	75
	Appendix 4: Table of Contents from “ <i>A Fairer Taxation System for a Fairer Ireland</i> ”, (Reynolds and Healy (eds), CORI, 2004).	76
	Appendix 5: Policy Proposals on Taxation from CORI Justice’s 2008 Socio-Economic Review, Planning for Progress and Fairness (pp 95-97).	77
	Appendix 6: Who Does Not Benefit from the Government's Annual Budget? Income Distribution and Budget 2008	79
	Contact Details	81

1. INTRODUCTION

CORI Justice welcomed the establishment by the Government of the Commission on Taxation and we welcome its decision to engage in consultation with interested organisations and members of the general public. We believe that the Commission's establishment is timely, given Ireland's adjustment to more sustainable levels of national income growth and in the context of the continued challenge of raising our levels of infrastructure and social provision to comparable EU levels.

The role of taxation, and the need to reform the current structures of the taxation system, have been central to the work of CORI Justice for many years. To date we have published numerous documents addressing taxation reforms¹ and in 2004 we hosted a conference (and published a book) on the theme of *A Fairer Tax System for a Fairer Ireland*, (Reynolds and Healy, 2004). All these publications have been guided by our core policy objective in this area:

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 taxation system plays a key role in shaping Irish society through:

- (i) funding public services;
- (ii) supporting economic activity; and
- (iii) redistributing resources to enhance the fairness of society.

In that context, we strongly welcome the terms of reference given to the Commission by the Government and in particular note the prominence and priority given to the first item in those terms of reference which states that the work of the Commission should have regard to the commitments in the current *Programme for Government* and aim:

¹ See: Reynolds and Healy (1989, 2004); Healy and Reynolds, 2004; submission to the Department of Finance on the reform of tax expenditures (tax breaks and reliefs) in March 2005; *Policy Briefing* on Taxation (November 2005); and submissions to the Department of Finance and Department of Environment, Heritage and Local Government on motor taxes (March 2007).

to keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the tax system.²

Such an aim also reflects the approach to Ireland's future development agreed by the social partners in *Towards 2016*. That agreement opens with a statement of the principal goals for Irish society over the period 2006-2016 and the first of these goals aims at "nurturing the complementary relationship between social policy and economic prosperity". Also in its opening passages the national agreement states that "in the past the performance of the economy set limits to our social and environmental possibilities. However, economic policy and social provision can be mutually reinforcing and complementary" (2006:10).

These are important starting points for the work of the Commission and for this submission. They reflect the position CORI Justice has advocated for many years – that economic and social progress are necessarily complementary ambitions for any society. Adequate and sustainable progress is not possible unless both advance together.

² See appendix 1 for a copy of the Commission on Taxation's Terms of Reference.

2. CONTEXT OF THE COMMISSION'S WORK

As the Commission on Taxation undertakes its assessment of the current and future structure of the taxation system, it is worthwhile noting the context of its work. In this section of our submission we address that issue, classifying the context of the Commissions work under the following headings:

- 2.1. The Current Fiscal Position**
- 2.2. Economic Change ahead**
- 2.3. Demographic Change ahead**
- 2.4. Social Change ahead**
- 2.5. Future Taxation Needs**

2.1 The Current Fiscal Position

The most recent data on the size of the Irish tax burden has been produced by Eurostat (2007) and is detailed alongside that of 26 other EU states in table 1. The definition of taxation employed by Eurostat incorporates all compulsory payments to central government (direct and indirect) alongside social security contributions (employee and employer) and the tax receipts of local authorities.³ The tax burden of each country is established by calculating the ratio of total taxation revenue to national income as measured by gross domestic product (GDP). Table 1 also compares the tax burdens of all EU member states against the average tax burden of 37.4 per cent.

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

³ See Eurostat (2004:32-34) for a more comprehensive explanation of this classification.

Table 1: Total tax revenue as a % of GDP, for EU-27 Countries, 2005					
Country	% of GDP	+/- from average	Country	% of GDP	+/- from average
Sweden	51.3	+13.9	Czech Rep	36.3	-1.1
Denmark	50.3	+12.9	Bulgaria	35.9	-1.5
Belgium	45.5	+8.1	Spain	35.6	-1.8
France	44.0	+6.6	Cyprus	35.6	-1.8
Finland	43.9	+6.5	Malta	35.3	-2.1
Austria	42.0	+4.6	Portugal	35.3	-2.1
Italy	40.6	+3.2	Greece	34.4	-3.0
Slovenia	40.5	+3.1	Poland	34.2	-3.2
Germany	38.8	+1.4	Estonia	30.9	-6.5
Hungary	38.5	+1.1	Ireland GDP	30.8	-6.6
Luxembourg	38.2	+0.8	Latvia	29.4	-8.0
Netherlands	38.2	+0.8	Slovakia	29.3	-8.1
United Kingdom	37.0	-0.4	Lithuania	28.9	-8.5
Ireland GNP	36.6	-0.8	Romania	28.0	-9.4

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

Notes: All data is for 2005. EU average (unweighted) is 37.4 per cent.
A graphical version of these figures is attached in Appendix 2

GDP is accepted as the benchmark against which tax levels are measured in international publications. However, in Ireland some suggestions have been made to the effect that gross national product (GNP) should be used. This argument is based on the fact that Ireland's large multinational sector is responsible for significant profit outflows which if counted (as they are in GDP but not in GNP) exaggerate the scale of Irish economic activity.⁴ Commenting on this Collins stated that "while it is clear that multinational profit flows create a considerable gap between GNP and GDP, it remains questionable as to why a large chunk of economic activity occurring within the state should be overlooked when assessing its tax burden" and that "as GDP captures all of the economic activity happening domestically, it only seems logical, if not obvious, that a nation's taxation should be based on that activity" (2004:6).⁵ He also noted that using GNP will overstate the scale of the tax burden in Ireland because it excludes the value of multinational activities in the economy but does include the tax contribution of these

⁴ Collins (2004:6) notes that this is a uniquely Irish debate and not one that features in other OECD states such as New Zealand where noticeable differences between GDP and GNP also occur.

⁵ See also Bristow (2004:2) and O'Toole and Cahill (2006:209) who make a similar argument.

companies. As such, the size of the tax burden carried by Irish people and firms is exaggerated.

CORI Justice believes that it would be more appropriate to calculate the tax burden by comparing GNP and an adjusted tax-take figure which excludes the tax paid by multinational companies. As figures for their tax contribution are currently unavailable, we have simply used the unadjusted GNP figures and presented the results in table 1. In 2005 this stood at 36.6 per cent. This also suggests to international observers and internal policy makers that the Irish economy is not as tax-competitive as it truly is. It would be useful if the Commission on Taxation could resolve this ongoing confusion.

In the context of these figures, the question needs to be asked: if we expect our economic and social infrastructure to catch up to that in the rest of Europe, how can we do this while simultaneously gathering less taxation income than it takes to run the infrastructure already in place in most of those other European countries? Simply, we will never bridge the social and economic infrastructure gaps unless we gather a larger share of our national income and invest it in building a fairer and more successful Ireland.

Small increases in taxation are certainly feasible and are unlikely to have any significant negative impact on the economy. An increase of just one per cent in the GDP to tax ratio (from 30.8 to 31.8) would, *ceteris paribus*, produce an extra €1.61bn each year in taxation income for the government. Were Ireland to increase its total taxation levels to that of the UK (from 30.8 to 37.0), a country hardly regarded as being high tax, the exchequer would have an additional income each year of €10bn.⁶

For some time, CORI Justice has been to the fore in calling for Ireland to increase its tax take towards that of other European countries. In recent years, the Irish tax take has begun to increase. It has climbed from 28.5 per cent in 2002 to 30.8 per cent in 2005. We

⁶ We make this point to illustrate the scale of resources available, an increase of this nature is not currently necessary given the strength of the Irish economy.

welcomed this move and note that it has occurred, as we suggested it would, with virtually no macroeconomic or competitiveness implications. Ireland should remain a low-tax economy, but not one incapable of adequately supporting the economic, social and infrastructural requirements necessary to complete our convergence with the rest of Europe.

In the context of the figures in table 1, it is worthwhile examining the other side of fiscal policy (levels of government expenditure) in an EU context. The most recent figures from Eurostat, report the total expenditure by governments across the EU-27 in 2006 (Eurostat, 2007:165). Table 2 reports this data for all 27 member states and shows total Irish government expenditure is below the EU average. Only Latvia and Lithuania record lower levels of government expenditure. It remains a myth that Irish government spending is too high.

Table 2: Total Government Expenditure as a % of GDP, for the EU-27, 2006			
Country	% of GDP	Country	% of GDP
Sweden	54.3	Malta	43.8
France	53.4	Czech Republic	43.6
Hungary	51.9	Cyprus	43.6
Denmark	51.7	Greece	42.3
Italy	50.1	IRELAND GNP	40.0
Austria	49.3	Luxembourg	39.0
Finland	48.9	Spain	38.6
Belgium	48.5	Latvia	37.3
Portugal	46.4	Slovakia	37.2
Netherlands	46.1	Bulgaria	37.1
Germany	45.4	Romania	34.8
Slovenia	45.3	IRELAND GDP	34.2
United Kingdom	44.6	Lithuania	34.0
Poland	43.9	Estonia	33.0

Source: Eurostat (2007:165), Eurostat online database and CSO (2007:4)

Note: EU-27 arithmetic average of 43.6% of GDP.

A graphical version of these figures is attached in Appendix 2

2.2 Economic Change Ahead

Recent reports from the OECD (2008) and ESRI (FitzGerald et al, 2008) point towards the Irish economy adjusting to more sustainable levels of economic growth. Table 3

presents projections from the ESRI *Medium Term Review 2008-2015* which suggest lower national income growth for the overall economy and in per-capita terms. Coupled with this adjustment is a slowdown in the rate of job creation and an increase in unemployment above the natural rates of recent years.

	1995- 2000	2000- 2005	2005- 2010	2010- 2015	2015- 2020
National Income % growth (GNP)	8.6	4.4	4.1	3.8	3.5
National Income per capita % growth	7.5	2.6	2.4	2.6	2.4
Inflation rate (Consumption deflator)	3.4	3.3	2.4	2.8	3.2
Employment % growth	5.0	3.2	2.0	1.2	1.1
Unemployment rate % labour force*	4.3	4.2	6.6	5.3	4.4

Source: FitzGerald et al (2008:ix, 58)

Note: * = end of period rates

While these changes mark a change of pace for the Irish economy, CORI Justice believes that it is important that they should not be over-interpreted as major economic problems or used as impediments to achieving further improvement in our national infrastructure and social provision. In that context we note the ESRI's conclusion on the importance of "a good urban infrastructure, high quality health care and education and a clean environment" in Ireland's further development and in the attraction/retention of the high skilled workers (FitzGerald et al, 2008:xii).

2.3 Demographic Change Ahead

An essential element of any society is its ability to plan for the future. In that context an important insight into Ireland's future was provided during April 2008 as part of the Central Statistics Office (CSO) report on expected population trends. Entitled *Population and Labour Force Projections, 2011-2041* the report signalled a dramatic demographic transformation due to occur in Ireland over the next three decades.⁷ Table 4 presents its main findings.

⁷ See also Punch (2006).

Year	Population Growth	% increase from 2002
2002	3,917,000	-
2006	4,232,900	8.06
2011	4,685,500	19.62
2016	5,093,800	30.04
2021	5,449,200	39.12
2026	5,695,400	45.40
2031	5,900,700	50.64
2036	6,080,300	55.23
2041	6,247,100	59.49

Source: CSO (2004; 2008: 27, 33). Using the most realistic of the CSO's demographic assumptions M2F1 – moderate migration and high fertility.

As table 4 shows, the CSO forecast that Ireland's population will climb from approximately 4.3 million people in 2006 to 5.4 million people by 2021 and will exceed 6 million people in 2036. By 2041 the population will have grown by almost 60 per cent compared to 2002 – reaching almost 6.25 million people.

Clearly, there are both revenue and expenditure implications for government taxation levels arising from these projections. Similarly, there are major implications for many other public policy areas. Where will all these extra people be housed? How will they travel around? What additional education and health facilities are required to provide for such additional numbers? How can Ireland ensure that we build a fair and inclusive society which can adequately cater for all these extra people?

Future education needs

The CSO figures do provide some insight into the additional demands on the state to provide and fund education facilities over the next few decades. As part of its projections the CSO signalled that the number of primary school children will increase from 450,500 in 2006 to reach almost 500,000 by 2011 and will climb further to almost 600,000 by 2021 (CSO, 2008:27). Secondary students will increase from 342,300 in 2006 to over 400,000 by 2021. Unless it is planned to allow pupil-teacher ratios to rise dramatically over this period, then further state expenditure will be required to provide more teachers

and school facilities to cope with these substantial increases. Table 5 summarises the CSO's projections in this area.

Year	Primary (ages 5-12)	Secondary (ages 13-18)
2001 (actual)	433,900	375,300
2006 (actual)	450,500	342,300
2011	497,200	337,900
2016	548,700	370,100
2021	599,500	401,500
2026	611,200	441,900
2031	583,000	463,500
2036	543,500	452,500
2041	528,500	420,500

Source: CSO (2004; 2008:27, 33). Using M2F1 population projection assumption.

Future pension and healthcare needs among the elderly

While the CSO do not comment directly on the additional implications for pension and healthcare provision of their population projections, they do provide useful figures that are worth considering. Table 6 reports their projections for the numbers of people aged over 65 in Ireland for the period from 2006-2041.

	2006	2011	2016	2021	2026	2031	2036	2041
65-69 years	141.2	173.1	212.7	234.7	263.8	294.2	323.7	367.4
70-74 years	117.5	130.5	161.7	200.4	222.3	251.2	281.2	310.3
75-79 years	91.4	101.5	115.3	145.4	182	203.8	231.8	260.9
80-84 years	64.4	70.2	81.2	95.1	122.7	155.8	176.5	202.9
85 years +	47.8	60.4	74.9	94	118	155.5	206	255.1
Total 65+	462.3	535.7	645.8	769.6	908.8	1060.5	1219.2	1396.6
Total 70+	321.1	362.6	433.1	534.9	645	766.3	895.5	1029.2
Total 65+ % pop	10.92%	11.43%	12.68%	14.12%	15.96%	17.97%	20.05%	22.36%
Total 70+ % pop	7.59%	7.74%	8.50%	9.82%	11.32%	12.99%	14.73%	16.47%

Source: Calculated from CSO (2008:40). Using M2F1 population projection assumption.

As table 6 shows, the number of people aged over 65 years will almost double in the 20 years from 2006-2026 and it will more than triple over the period 2006-2041. This has obvious implications for the number of recipients of state pensions and the taxation-

funded costs associated with its provision. Similarly, table 6 shows that the number of people aged over 70 years, and entitled to a free state-funded medical card, will grow rapidly over the period. There are also likely to be other public services related costs (health care provision, public transport subsidies etc) associated with the increases in this age group. Again, these will require funding from taxation.

Commenting on the pension and taxation implications of these figures, the recent OECD *Economic Survey of Ireland* noted that:

“The impact of the pension system on the wider economy today is relatively small as Ireland has a young population: almost 45% of the workforce is aged under 35 and government spending on pensions as a share of Gross National Income (GNI) is consequently among the lowest in Europe...The budgetary cost of the state pension system is currently around 5% of GDP, the lowest in the EU19, reflecting the young workforce and relatively low level of the state pension. This is projected to rise substantially by 2050 as the population ages, even before taking account of the increase in generosity programmed by 2012...As the old-age dependency ratio rises [see table 7], the burden of financing would shift away from social security contributions (PRSI contributions) towards general taxation if contribution rates are not raised...This implies that, under the current pension system, Ireland would have to make very substantial changes, either by reallocating large parts of government expenditure from other activities or by substantially raising taxes. This would occur even allowing for additional funding from the National Pensions Reserve Fund (NPRF). The reduction in government investment as the upgrading of infrastructure is completed, as well as the increase in national income derived from this investment, will only meet part of the increase in pension costs. In addition, the demand for medical and social services is likely to rise in tandem with the greying of the population.” (OECD, 2008:80-84)

Year	Dependency ratio	Year	Dependency ratio
1980	22.00	2020	25.25
1990	21.94	2030	31.66
2000	19.24	2040	39.76
2010	19.52	2050	50.15

Source: OECD (2008:80) and OECD Statlink database – Demographic and Labour Force Statistics.

Note: The age dependency ratio is calculated as the population aged over 65 years relative to working-age population.

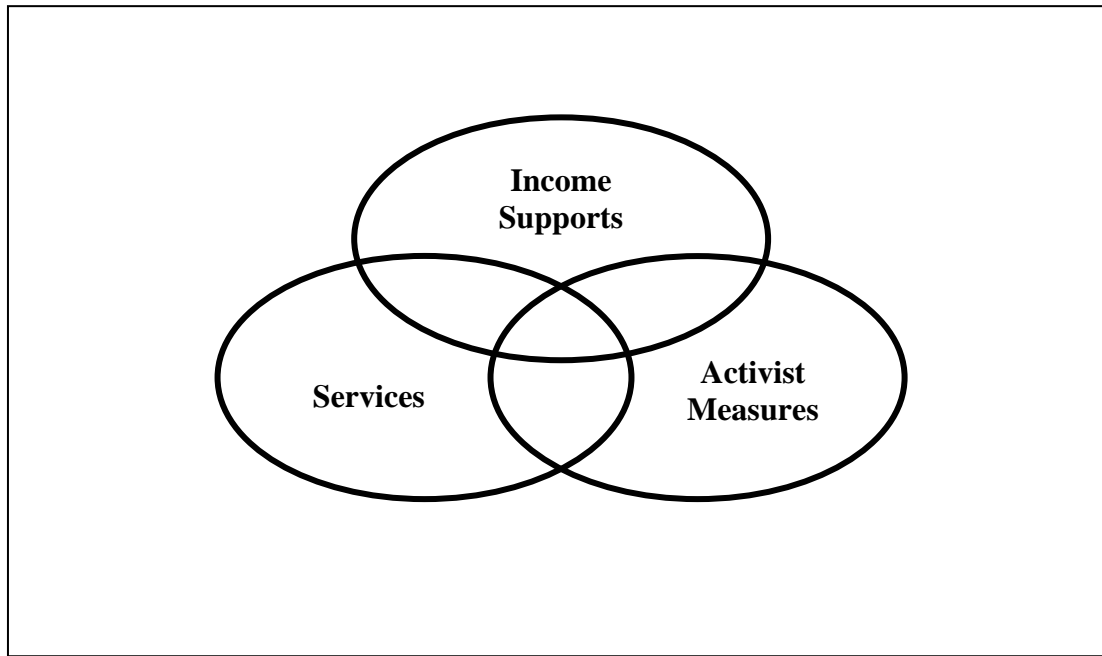
2.4 Social Change Ahead

“Our responsibility is to fuel the engine of community – to lead the charge away from the promotion of exclusive self interest towards a superior value of a wider community interest. The pre-eminence of community and participation over self promotes social harmony and a better quality of life for all. This is what will allow us develop a society of social inclusion”

- Extract from speech by Brian Cowen T.D. following his election by Dáil Eireann as Taoiseach

The increasing awareness of the interdependence between economic and social development is reflected in the first of the Commission on Taxation’s terms of reference. Achieving further social progress and enhancing Ireland’s social infrastructure are key challenges for the next decade. Guiding that process is the National Economic and Social Council’s report entitled *The Developmental Welfare State* (NESC, 2005). Chart 1 presents the core structure of the NESC model. It comprises three interrelated areas: services, income supports and innovative measures. In building the developmental welfare state NESC has argued that Irish society should take a ‘life-cycle’ approach. Such an approach focuses on identifying the needs of children, young adults, people of working age, older people and people challenged in their personal autonomy such as those in care. The council has suggested that for each group we should focus on securing an effective combination of income supports, services and social innovations.

CORI Justice welcomed this approach. We also welcomed its incorporation into the *Towards 2016* national social partnership agreement and its endorsement in the current *Programme for Government*. Successfully implementing this approach will underscore each of these groups ability to play a real and sustained role in Irish society and thereby play an important role in tacking social exclusion. The approach provides each sector involved with key challenges if the best options are to be taken and if the approach is to be successfully developed as a template for policy.

Chart 1: The Core Structure of the Developmental Welfare State

Services	Income Supports	Activist Measures
<ul style="list-style-type: none"> • Childcare • Education • Health • Eldercare • Housing • Transport • Employment services • Training 	<ul style="list-style-type: none"> • Progressive child income support • Working age income for participation • Minimum pension guarantee • Capped tax expenditures 	<ul style="list-style-type: none"> • Social inclusion • Area-based strategies • Particular community/group projects • Emerging new needs • Novel approaches

Source: NES (2005:144, 156)

Reflecting some of the challenges associated with the successful implementation of this strategy are government commitments to reduce levels of poverty, raise state pension levels and maintain minimum social welfare payments at a level equivalent to 30 per cent of gross average industrial earnings (GAIE). Similarly, there is a need to further improve public services, through achieving greater efficiency and providing greater funding. The political and policy commitments to achieve these changes are welcome. However, they all carry some implications for government expenditure and the level of taxation required

“to meet the cost of public services and other Government outlays in the medium and long term” (extract from Commission on Taxation’s Terms of Reference).

To underscore the importance of the taxation system's role in redistributing resources, data from CSO's income and poverty survey (*EU-SILC*) is of relevance. As part of the *EU-SILC* results the CSO has established the importance of redistribution through social welfare payments (and funded via taxation). Table 8 presents their results which show what the levels of poverty are before and after the payment of social welfare benefits. Without redistribution through the social welfare system, Ireland's poverty rate in 2006 would have been 40.3 per cent. The actual poverty figure of 17 per cent reflects the fact that social welfare payments reduced poverty by 23.3 per cent. Looking at the impact of these payments on poverty over time it is clear that the recent increases in social welfare have yielded noticeable reductions in poverty levels. The small increases in social welfare payments in 2001 are reflected in the smaller effects achieved in that year. Conversely, the larger increases in recent years have delivered greater reductions. This has occurred even as poverty levels before social welfare have increased.

Table 8: The role of social welfare payments in addressing poverty	2001	2003	2004	2005	2006
Poverty pre social welfare	35.6	37.2	39.8	40.1	40.3
Poverty post social welfare	21.9	19.7	19.4	18.5	17.0
The role of social welfare	-13.7	-17.5	-20.4	-21.6	-23.3

Source: CSO (2006:7; 2007:13), using national equivalence scale.

As social welfare payments do not flow to everybody in the population it is interesting to examine the impact they have on alleviating poverty among certain groups such as older people. Without any social welfare payments 85.9 per cent of all those aged over 65 years in Ireland would be living in poverty. Benefit entitlements reduce the poverty level among this group to 13.6 per cent (CSO, 2007:14) a finding which underscores the importance of the redistributive element of the taxation and social welfare system to older people.

2.5 Future Taxation Needs

Reflecting on all of the above points, it is clear that government decisions to raise or reduce overall taxation revenue needs to be linked to the demands on its resources. These demands depend on what Government is required to address or decides to pursue. A

valuable review of Ireland's future taxation needs was presented in a paper to our 2004 social policy conference (Collins, 2004:9-14). In that paper Collins points out that in the immediate-term tax increases are not essential if the government avails of the funds available to it in its current account surplus. However, in the medium-term he indicated that the government faced a series of demands which will necessitate increases in the amount of taxation it collects. These demands include: contributions to the European Union as Ireland becomes a net contributor; payments for fines imposed under the Kyoto protocol; increases in Overseas Development Assistance (ODA) contributions; increases in social welfare payments in accordance with the National Action Plan for Social Inclusion; and increases in spending on education, healthcare and pensions as a result of an increase in the numbers of children and older people in the population over the next 20 years.

A further item that can be added to this list is the additional funding required to finance local government up to and after 2010. An indication of the size of this commitment was provided by a report from Indecon Economic Consultants (2005) commissioned by the Department of Environment, Heritage and Local Government. Among its conclusions the report pointed out the likelihood of an annual 'funding gap' of between €15m and €1,500m up to 2010. Thus the report recommended that central government provide 'a significant increase in the level of resources available to local authorities over the period to 2010' (2005:193, 194).

Research by Bennett et al (2003) also provides some insight into future exchequer demands. Table 9 presents estimates as a percentage of GDP for the costs of healthcare and pensions in Ireland in the years 2025 and 2050. Reflecting the earlier CSO and OECD analyses, as the population ages these figures will increase substantially, almost doubling between 2002 and 2050 from 8.9 to 16.7 per cent of GDP. Dealing purely with the pension issue, an ESRI study reached similar conclusions and projected that 'social welfare spending that is focused on older people' will rise from 3.1 per cent in 2004 to 5.5 per cent in 2030 and to 9.3 per cent in 2050.

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

Source: Bennett et al (2003)

The implication of these findings is that in the years to come Ireland will have to raise additional taxation revenue to meet these demands.

3. KEY CONSIDERATIONS TO INFORM THE COMMISSION'S WORK

CORI Justice believes that the Commission on Taxation is charged with an important task and throughout its period of work the following are, in our opinion, the key considerations that should influence its work:

3.1 Supporting Economic Activity

3.2 The Need for a Fairer Taxation System

3.3 Addressing Environmental Challenges through the Taxation System

3.4 Integrating the Taxation and Social Welfare Systems

3.5 The Requirement for Evidence Based Policy Making and Evaluation

3.6 Enhancing the Simplicity of the Taxation System

3.7 Reporting and Promoting Effective Taxation Rates

3.1 Supporting Economic Activity

The taxation system plays an important role in supporting economic activity and rewarding work in Ireland. This is an important role and one of the system's key functions. However, reflecting its terms of reference, it is important that the Commission be conscious that this is not the only role of the taxation system (see the introductory section of this submission).

Maintaining Ireland's status as a country with a low burden of taxation is also important and is a welcome inclusion in the Commissions' terms of references. CORI Justice is conscious that economic success provides much of the resources necessary to enhance and maintain Irish society and a low overall taxation burden is an element of this success. As we have shown in table 2, Ireland's taxation burden is low relative to that of other countries. It is important that the Commission be conscious of the fact that the Irish taxation burden would continue to be regarded as low even were it to increase by a few percentage points of national income. While there is no agreed international (or national) definition of 'low taxation' it seems fair to assume that Ireland would still be a low taxation economy if it collected taxation totalling less than 40 per cent of GDP (equivalent to approximately > 45 per cent of either GNI or GNP).

Is a higher tax-take problematic?

Suggesting that any country's tax take should increase normally produces negative responses. People think first of their incomes and increases in income tax, rather than more broadly of reforms to the tax base. Furthermore, proposals that taxation should increase are often rejected by suggestions that they would undermine economic growth. However, a review of the performance of the British and US economies over recent years is interesting in light of this issue.

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

Taxation and competitiveness

Another argument made against increases in Ireland's overall taxation levels is that it will undermine competitiveness. However, the suggestion that higher levels of taxation would damage our position relative to other countries is not supported by international studies of competitiveness. Annually the World Economic Forum publishes a *Global Competitiveness Report* ranking the most competitive economies across the world. Table 10 outlines the top fifteen economies in this index as well as the ranking for Ireland (which comes 22nd). It also presents the difference between the size of the tax burden in these, the most competitive, economies in the world and Ireland for 2006.⁸

⁸ This analysis updates that first produced by Collins (2004:15-18).

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

Source: World Economic Forum (2007:10)

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

Four countries, the US, Switzerland, Korea and Japan have noticeable lower taxation levels compared with Ireland. Of the other leading competitive economies all collect a greater proportion of national income in taxation. Over time Ireland's position on this index has varied, moving from 23rd to 26th and most recently to 22nd. When Ireland has slipped back the reasons stated for Ireland's loss of competitiveness included decreases in economic growth, poor performances by public institutions and a decline in the technological competitiveness of the economy (WEF, 2003: xv). Interestingly, a major factor in that decline would seem to be related to underinvestment in state funded areas: education; research; infrastructure; and broadband connectivity. Each of these areas is dependent on taxation revenue and they have been highlighted by the report as necessary areas of investment to achieve enhanced competitiveness.⁹ As such, lower taxes do not feature as a significant priority; rather it is increased, targeted and justified government spending and investment.

⁹ A similar conclusion was reached in another international competitiveness study by the International Institute for Management Development (2007).

Commenting on the future prospects for Ireland Jim Power, the chief economist at Friends First, stated: “we will have to accept that, if we as a nation expect top quality public services, we will have to pay for them. Ireland has one of the lowest levels of taxation as a percentage of GDP in the European Union. Consequently, it is not terribly surprising that it also has one of the poorest levels of public services amongst the more developed EU nations. If we want to change the quality of services, the tax burden will have to rise...the balance between the level of taxation and the quality of public services is a choice we as a nation will have to make over the coming years” (2003:43). A similar point was expressed by the Nobel Prize winning economist Professor Joseph Stiglitz while visiting Ireland in June 2004. Commenting on Ireland’s long-term development prospects he stated that “all the evidence is that the low tax, low service strategy for attracting investment is shortsighted” and that “far more important in terms of attracting good businesses is the quality of education, infrastructure and services.”¹⁰

It is an obvious reality that Ireland can never hope to address its deficits in infrastructure and social provision if we continue to collect substantially less tax income than that required by other European countries. Small increases in taxation are certainly feasible and there is little evidence to suggest that such increases would have any significant negative impact on the economy. CORI Justice believes that these increases should not be attained through income taxation, but rather via reforming and broadening the tax base so that Ireland’s taxation system becomes fairer.

3.2 The Need for a Fairer Taxation System

The need for fairness in the tax system was clearly recognised in the first report of the Commission on Taxation more than twenty-five years ago. In that volume it stated:

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

¹⁰ In an interview with John McManus, Irish Times, June 2nd 2004. The Stiglitz conclusion is very similar to that advocated by the ESRI in their 2008 Medium Term Review (FitzGerald et al, 2008:xii).

The need for fairness is very obvious today and CORI Justice believes that this should be a central objective of the current Commission on Taxation. Our core policy objective in this area, stated at the start of this submission, reflects that belief.

3.3 Addressing Environmental Challenges through the Taxation System

Our environment is a priceless asset. Its protection is of major importance not just to current times but also to the generations that will follow us. However, the environment is regularly taken for granted; it is often mistreated and excessively exploited. Three recent publications offer some interesting figures on environmental issues and policies in Ireland. They are: *Measuring Ireland Progress 2006* (CSO); *The Statistical Yearbook of Ireland 2007* (CSO); and *Environment in Focus 2006* (Environmental Protection Agency). While it is only possible to assess a fraction of the issues covered by these documents, the following are among the key figures they report:¹¹

- Smoke pollution in Dublin, Cork and Limerick has decreased significantly since the introduction of legal restrictions on the sale of non-smokeless coals. All three cities now record pollution levels well below the EU limits. Dublin achieved this in 1993, Limerick in 1998 and Cork in 2002.
- The number of private cars in Ireland per 1,000 people aged 15 and over has increased from 364 in 1995 to 507 in 2005. The EU-25 average is 553 cars per 1,000 population (15 years +).
- The volume of road traffic in Ireland has already risen to those levels predicted for 2010.
- In 1995 90.1 per cent of all inland freight was transported by road. This increased to 98.3 per cent in 2005, 21.8 per cent higher than the EU-27 average.
- There are over 717,000 hectares of forestry in Ireland. This has increased by 49 per cent since 1990.
- In 2005 trees removed 811 kilotonnes of CO₂ from the Irish atmosphere while road vehicles created 12,454 kilotonnes.
- The quantity of “acid-rain” decreased by 25 per cent between 1990 and 2004.
- Imported oil and gas accounts for 73 per cent of Ireland’s energy supply.
- Renewable energy only provides 4-5 per cent of Ireland’s electricity generation needs.
- In 2005, 40.6 per cent of Ireland’s energy demands derived from transport, 23

¹¹ A more comprehensive review of these issues is presented in our 2008 Socio-Economic Review entitled *Planning for Progress and Fairness* (see pages 180-190). The document is available from our website: www.cori.ie/justice

- per cent from residential households, 20 per cent from industry, 2.6 per cent from agriculture, and 13.9 per cent from the service sector.
- Household and commercial waste has increased by over 21 per cent in volume between 2001 and 2005. Currently Ireland produces almost 2.8 million tonnes of waste each year. The EPA report notes that this level has more than doubled since 1995 and is more than 3.25 times the level recorded in 1985.

Over time, Ireland's air has become more and more polluted. Between 1990 and 2006 the EPA reported that Ireland's greenhouse gas emissions grew by 25.5 per cent (see table 11). Total combined Irish emissions of the three main greenhouse gases regarded as having global warming potential amounted to 69.77m tonnes of CO₂ equivalent in 2006, up from 55.6m tonnes in 1990. A breakdown of the 2006 pollution figures shows that agriculture is the single largest contributor to the overall emissions, at 27.7 per cent of the total, followed by energy (generation and oil refining) at just over 22.3 per cent and transport at 19.7 per cent (EPA, 2007 and 2008).

The most recent figures indicate that the current levels of emissions now exceed the limits agreed under the Kyoto protocol. The Irish government and the European Commission agreed a target of an 8 per cent reduction in European CO₂ emissions on their 1990 level by 2012. Within this agreement, Ireland agreed to limit its increase of CO₂ emissions to 13 per cent between 1990 and 2012. Table 11 reports the level of greenhouse gas emissions versus the 1990 level (set at 100 on the emissions index). CORI Justice welcomes Ireland's ongoing commitment to this protocol, despite the refusal of some countries, including the USA, to ratify its implementation. However, these emissions are a major cause of climate change, and it is in all our interests to ensure that the limits agreed in the Kyoto protocol are met.

Major changes are required if we are to reduce our emissions towards this target. In particular, the transport sector has a central role to play. While launching the 2006 figures, the EPA noted that the transport sector recorded the greatest increase between 2005 and 2006 (of 5.2 per cent) and that that sector pollution contribution has grown by 165 per cent since 1990. If simple policy options are available to address this sustained growth in transport related emissions, they should be adopted.

Year	Emissions Index	+ / - Kyoto Target	% from target
1990	100.00	-13.00	-11.5
1998	117.73	+4.73	+4.2
1999	120.45	+7.45	+6.6
2000	123.34	+10.34	+9.2
2001	126.30	+13.30	+11.8
2002	123.46	+10.46	+9.3
2003	121.99	+8.99	+8.0
2004	122.73	+9.73	+8.6
2005	125.40	+12.40	+11.0
2006	125.50	+12.50	+11.0

Source: EPA (2007 and 2008).

Where countries are found to be producing greenhouse gas emissions in excess of their agreed Kyoto protocol levels the agreement contains a mechanism for imposing fines on these nations. As part of Ireland's commitment to avoid these fines Government has announced that Ireland will avail of the EU carbon trading system to buy carbon credits. This system was established to allow countries polluting above their agreed levels to buy credits from countries who record emissions below their Kyoto targets. To date it has been announced that the Government will buy no more than 3.6 million tonnes of carbon credits for each of the years from 2008-2012. Given the current level of greenhouse emission in Ireland, and taking account of announced policies due to be implemented during that period, CORI Justice believes that it is likely that Ireland will be forced to buy a substantially larger quantity of carbon credits across the period.

When briefing the Dáil Public Accounts Committee in March 2006 the organisation responsible for buying these credits, the National Treasury Management Agency (NTMA), suggested that the credits are likely to cost at a minimum €30 per tonne. Over the five years, 2008-2012, this implies an exchequer cost of at least €540m. However, given that many European states will record emissions levels in excess of their Kyoto levels, it seems appropriate to anticipate that the market price of these credits will rise above €30. At €40 per tonne the estimated cost over the five years would be €720m while at €50 per tonne the cost would rise to a total of €900m.

In addition to these costs, Ireland may also face direct Kyoto fines. These would be imposed were our greenhouse gas emissions still above the Kyoto targets following inclusion of the carbon credit offsets. The scale of these exchequer costs further underscores the need to significantly address the nature and extent of Ireland greenhouse gas emissions. Reduction in these levels also implies reductions in exchequer expenditure and a consequent requirement to collect less taxation to pay for the fines associated with these emissions.

Overall, the finite nature of our environment demands that we take account of environmental costs along with other factor costs. Measures to protect the environment have necessarily involved intervention in the market, because market forces do not themselves provide for environmental protection. Up to now this “intervention” has been by legislated regulatory measures. In the long run, however, a more comprehensive approach is required. In recent years the sheer increase in the volume of economic activities has often negated regulatory gains. A key step should be to include in prices – and thereby internalise – the environmental costs occasioned by economic activity. Environmental taxes offer a key way of introducing this consideration to people’s decision making. The success of the plastic bag tax and the structure of the recent VRT/Motor Tax reforms reflect this. CORI Justice hopes that the Commission on Taxation will recommend further carbon and anti-pollution taxes. In doing so the principle of “the polluter pays” should be central.

3.4 Integrating the Taxation and Social Welfare Systems

One impediment to the efficient operation of the Irish redistribution system (taxation and social welfare) is the absence of adequate integration between the Revenue Commissioners taxation records and the PRSI records of the Department of Social and Family Affairs. We note the current Programme for Government commitment to:

“Integrate the tax and social welfare systems fully to allow for more efficient data and money transfer mechanisms and provide for a fully integrated PPS number”
(Programme for Government, 2007:53)

This would be a worthwhile and beneficial reform and we believe that the Commission on Taxation should recommend it to occur.

3.5 The Requirement for Evidence Based Policy Making and Evaluation

There is now little challenge to the idea that good policy requires good information. This is particularly true in an era where public policy is becoming increasingly complex, diverse and interconnected. The growing importance of evidence-based policy-making in Ireland largely stems from the process of public sector reform that commenced in the 1990s with the launch of the Strategic Management Initiative (SMI). That process of reform advocated the need for an evidence-based approach to policy formulation and the assessment of policy outcomes.

In response to this development there is a need to establish, through analysis and evaluation, ‘what works’ in terms of policy responses. There is a need to review existing policy responses in order to establish whether such interventions are working effectively, whether they are worth continuing and what scope there is for improvement or reform. Equally, it is important to examine new ways of doing things. For these reasons, it is now generally accepted that an evidence-based approach to policy-making, one where policy is made on foot of factual information, is required.

CORI Justice believes that as the Commission on Taxation undertakes its work it should adopt an evidence based approach.¹²

3.6 Enhancing the Simplicity of the Taxation System

Our tax system is not simple. In a book reviewing Ireland’s taxation system Bristow (2004) argues that “some features of it, notably VAT, are among the most complex in the world”. The reasons given to support this complexity vary but they are focused principally around the need to reward particular kinds of behaviour which is seen as desirable by legislators. This, in effect, is discrimination in favour of one kind of activity

¹² Collins and Menton (2006) provide a good overview of this topic in a social policy context.

or against another. There are many arguments against the present complexity and in favour of a simpler system.

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

For the most part society at large gains little or nothing from the discrimination contained in the tax system. In some cases this discrimination causes very negative effects. Mortgage interest relief, for example, and the absence of any residential or land-rent tax have contributed to the rise in house prices.

Complexity makes taxes easier to evade, invites consultants to devise avoidance schemes and greatly increases the cost of collection. It is also inequitable because those who can afford professional advice are in a far better position to take advantage of that complexity than those who cannot afford to do this. For many people, even those with high completed education levels, the taxation system with its various incentives, expenditures/reliefs and allowances, is very difficult to comprehend and understand. A simpler taxation system would serve Irish society and all individuals within it better, irrespective of their means.

3.7 Reporting and Promoting Effective Taxation Rates

CORI Justice believes that the Commission on Taxation should strongly advocate the use and reporting of effective taxation rates for both individuals and corporations. These rates provide far greater clarity for taxpayers and policy makers. The reporting and use of these rates plays an important part in the further development of a fairer taxation system.

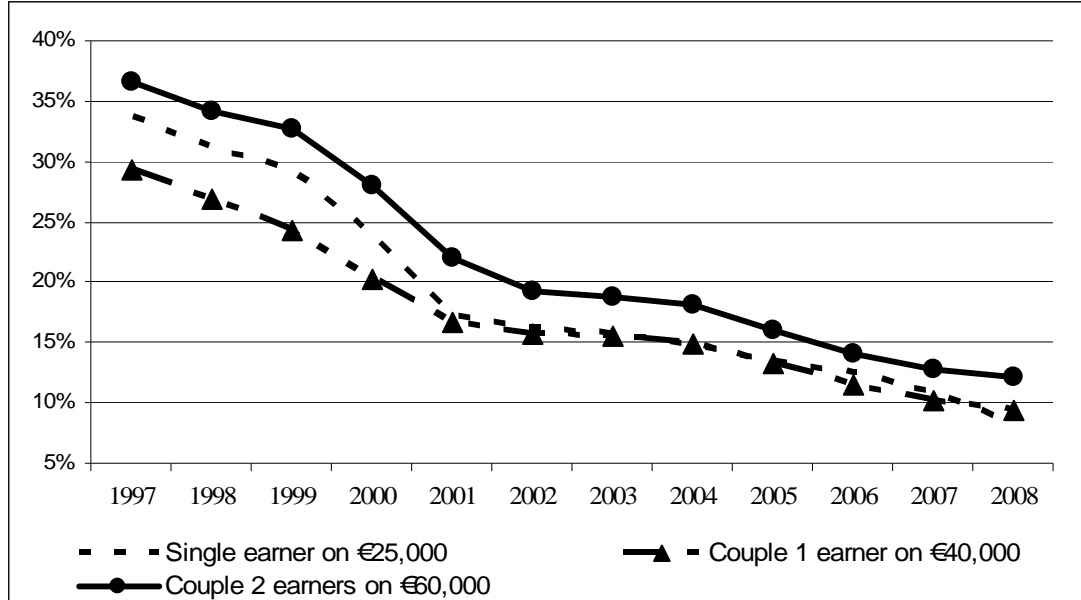
For individuals, these rates are calculated by comparing the total amount of income tax a person pays with their pre-tax income. For example, a person earning €50,000 who pays €10,000 in taxation will have an effective tax rate of 20 per cent. Calculating the scale of income taxation in this way provides a more accurate reflection of the burden of income taxation faced by earners. Following Budget 2008 we have calculated effective tax rates for a single person, a single income couple and a couple both earners. Table 12 presents the results of this analysis.

For a single person with an income of €15,000 the effective tax rate will be 0 per cent, rising to 8.3 per cent of an income of €25,000 and 35.4 per cent of an income of €120,000. A single income couple will have an effective tax rate of 0 per cent at an income of €15,000, rising to 2.9 per cent at an income of €25,000, 19.8 per cent at an income of €60,000 and 31.6 per cent at an income of €120,000. In the case of a couple where both are earning where their combined income is €40,000 their effective tax rate is 3.6 per cent, rising to 27.2 per cent for combined earnings of €120,000.

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

Source: CORI Justice (2007:4).

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

Chart 2: Effective tax rates in Ireland, 1997-2008

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

Notes: The data used in this chart is reported in Appendix 3.

Reviewing the figures in chart 2 and table 12 one has to question how much potential remains for future reductions in income taxation levels. As the situation stands the burden carried by those on different income levels is small but fair given that those earning more, pay more. Of course, income taxation is not the only form of taxation and, as outlined below, there are many in Ireland not paying their fair share and there may be ways of substituting tax revenue from income for that raised through other taxation mechanisms.

We regret that there is little or no information available for effective taxation rates as experienced by companies/corporations in Ireland. The Commission should address this important information deficit.

As part of its work CORI Justice recommends that the Commission on Taxation should strongly advocate the use and reporting of effective taxation rates for both individuals and corporations. We believe that the Commission should recommend that these rates are more prominently reported and that these rates are communicated to individual taxpayers every year.

4. TAXATION REFORM

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

There are a number of approaches available to the Commission on Taxation in reforming the tax base. Our 2004 Social Policy Conference and accompanying publication entitled *A Fairer Tax System for a Fairer Ireland* outlined in detail many of these options (Reynolds and Healy, 2004). The contributions and conclusions of that conference influence much of the content of this section of our submission.¹³

4.1 Reforming and Broadening the Tax Base

Our submission addresses this issue under the following four headings:

4.1.1 Tax Expenditures / Tax Reliefs

4.1.2 Corporation Taxes

4.1.3 Financing Local Government

4.1.4 Financial Speculation Taxes

4.1.1 Tax Expenditures / Tax Reliefs

Among its terms of reference, the Commission has been asked to

review all tax expenditures with a view to assessing the economic and social benefits they deliver and to recommend the discontinuation of those that are unjustifiable on cost/benefit grounds.

This is an important and challenging task facing the Commission. One of the most welcome public policy developments over the past few years has been the action taken by

¹³ A complete list of the papers presented and published at this conference are included in Appendix 4.

Government to address the provision of the sizeable number of tax expenditures, primarily in the form of tax reliefs. However, despite some recent reforms, the Irish tax system still incorporates a sizeable number of these tax expenditures. In November 2004 the Revenue Commissioners estimated that the annual cost of tax relief's was €8.4 billion, a value that is equal to 22 per cent of the total taxation collected each year in Ireland.¹⁴ They also indicated that they were unable to provide complete information on 44 individual tax relief schemes. Of these, the Revenue Commissioners had no figures for the number of claimants and the size of the claims made under 33 schemes. In the case of a further 11 schemes there was no information available on the number of taxpayers availing of the schemes (2004:63-66). In few other contexts would such lack of information on public expenditure (albeit via taxation revenue forgone) be acceptable.

	No's availing	Cost in €m's	Av. Cost €s
Capital allowances	269,300	1,921	7,133
Exemption of Pension Fund Income	n/a	1,268	n/a
SSIA scheme	1,113,880	540	485
Employers Pension Contributions	n/a	673	n/a
Employees Pension Contributions	670,500	526	784
Resort Relief	n/a	106	n/a
Mortgage Interest Relief	622,500	221	355
Self Employment Pension Contributions	109,600	170	1,551
Medical Insurance Relief	533,800	191	358
Employee Expenses	855,800	73	85
Business Expansion Scheme (BES)	2,015	20	9,925
Investments in Films	1,470	15	10,204
Artists Relief	1,300	37	28,461

Source: Calculated from NESR, 2003:341-342, Revenue Commissioners (2004:63-66) and Department of Finance (2004b:10).

Notes: The figures provided are mainly for the tax year's 2000/01 and in some cases 2004. All numbers availing are for the 2001 tax year.

In our March 2005 submission to *Department of Finance Consultation Process on the Review of Tax Reliefs and High Earners* we published a table, reproduced as table 13,

¹⁴ The Revenue Commissioners Statistical Report (2004:8) indicates that the total taxation collected in 2003 equalled €37.7b.

outlining information on some of the major tax expenditures, the overall cost of providing them per annum and the average cost per recipient (CORI Justice, 2005:2). The cost of these schemes is calculated as the amount of tax revenue foregone (i.e. not collected).

Over the years these schemes allowed many to avoid contributing their fair share in taxes and consequently CORI Justice has called for some time for their reform. Furthermore, the distribution of the financial benefits of these schemes is of some concern.

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

In 2000 the government introduced a tax relief scheme for capital investments in Hotels and Holiday Camps. An assessment by Indecon Consultants for the Department of Finance found that up to 2006 these schemes resulted in a net loss in tax revenue (revenue forgone) of €120.5m (Department of Finance, 2006 Vol. I: 73). The report recommended that the scheme now be abolished; a decision that Budget 2006 subsequently took. As part of this review Indecon also considered the distribution of these tax reliefs. Table 14 presents the results of a confidential survey of Ireland's Accountancy and Tax professionals carried out by the consultants. In the survey these professionals were asked to indicate where in the income distribution were the recipients of these schemes located. The figures therefore represent indicative views based on the judgement and expertise of these professionals.¹⁵ They indicate that all these benefits flowed to investors with a gross income of over €100,000 per annum and that two-thirds of those who benefited had annual gross incomes in excess of €200,000. Table 14 also reports a similar distribution analysis of those investors who availed of tax reliefs for

¹⁵ Accurate income distribution figures are unavailable as the Revenue Commissioners did not collect detailed information on these schemes.

multi-storey car parks. It presents an even more skewed allocation to those with incomes in excess of €200,000. In terms of tax revenue forgone this scheme cost the exchequer €15.9m.

Table 14: The % distribution of investors utilising two tax relief schemes according to the views of Accountancy and Tax Professionals – by likely annual gross income		
Gross Annual Income of Investors	Hotels and Holiday Camps	Multi-storey Car Parks
€200,000 +	66.7%	83.3%
€100,000 to €200,000	33.3%	16.7%
€50,000 to €100,000	0.0%	0.0%
Less than €50,000	0.0%	0.0%
Total	100.0%	100.0%
Net tax forgone up to 2006	€120.5m	€15.9m

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

An assessment of the tax reliefs associated with the Urban renewal scheme by Goodbody Economic Consultants identified that between 1999 and mid-2006 the total cost of this scheme in terms of tax revenue forgone was €1,423m. When considering the equity implication of this scheme they concluded that “the tax benefits of the scheme have accrued to relatively few high income individuals” and that “it is difficult to escape the conclusion that the scheme has had very negative equity impacts” (Department of Finance, 2006 Vol. II: 84-86). Budget 2006 also abolished this scheme.

In seriously addressing these tax expenditures CORI Justice believes that Budget 2006 took an important step towards achieving a fairer taxation system in Ireland. In responding to the budget we welcomed the Minister’s moves to address the problems arising from the provision of various tax reliefs and in particular addressing the way in which these schemes were being exploited to minimise the tax bills of very high earners. Consequently, we welcomed the then Minister’s Budget statement that “my basic aim is to see that everybody pays an appropriate amount of income tax relative to their ability to do so. This is the cornerstone of tax equity”. There is something profoundly unfair about

a system where millionaires pay little or no tax and those on very low incomes pay a much higher proportion of their income in tax.

Of the reforms introduced in Budget 2006 we welcomed reforms to tax reliefs in the pension system which cap the size of these reliefs and minimise the opportunities for using pensions to avoid paying a fair share of tax. Similarly, we welcomed the cap on the maximum value of the pension (though the pension fund limit of €5m still seems excessively generous and is twice that available in the UK) and the limits placed on the size of contributions. It would be beneficial if the Commission considered the appropriateness of these generous caps and limits.

The suggestion in table 14 that it is the better-off who principally gain from the provision of tax exemption schemes is underscored by reports published by the Revenue Commissioners entitled *Effective Tax Rates for High Earning Individuals* (2002, 2005, 2006 and 2007). These reports provide details of the Revenue's assessment of the top 400 earners in Ireland and the rates of effective taxation they faced.¹⁶ Table 15 presents their findings and shows that many of Ireland's highest earning individuals successfully use tax planning, schemes and loopholes to reduce their tax liability. The data does not include the approximate 3,050 Irish tax exiles who the Revenue Commissioners require to live outside Ireland for 182 days of the year.

These studies found that property tax reliefs, such as those provided for hotels and car parks, were the most effective in reducing the tax rates of the highest earners. Comparing the figures from 1999/00 and 2003 shows that over time the number of top earners benefiting from very low tax levels (less than 15 per cent) has increased from 18.25 per cent to 20 per cent. Figures from the Revenue Commissioners further indicate that in 2003 three of the top 400 earners (0.75 per cent) reduced their income tax liability to zero while a total of 48 high earners kept their tax liability below 5 per cent.

¹⁶ The effective taxation rate is calculated as the percentage of an individual's total pre-tax income that they pay in taxation.

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

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

As Rapple (2004: 79) has pointed out the general distribution of these tax expenditures is primarily in the direction of the better off elements of Irish society. One further example was offered by the National Economic and Social Council (NESC) in 2003 when they examined which households in the income distribution gained as a result of tax relief on employees occupational pensions during 1998 (2003:301). Their findings, presented in table 16, show that the bottom 20 per cent of households received zero per cent while the top twenty per cent of households received 56.8 per cent of the relief. Overall the distribution of the tax relief is heavily skewed towards the top forty per cent of households who receive almost 89 per cent of the value of this scheme.

Decile	% of total tax relief
Bottom	0.0
2 nd	0.0
3 rd	0.3
4 th	1.6
5 th	2.7
6 th	6.4
7 th	13.8
8 th	18.3
9 th	20.8
Top	36.0
Total	100.0

Source: NESC, 2003:301.

Looking to the future, we welcomed the Budget 2006 announcement by the Minister for Finance that the Revenue Commissioners will now collect full information on the costs of

all tax reliefs. Given the vast scale of these schemes, it is important that the full costs of their implementation are known so that these can be compared to the benefits. The availability of this data will be of some use to the work of the Commission on Taxation and we look forward to seeing it used and published. CORI Justice has for some time called for the costs and benefits of all tax relief schemes to be assessed to justify their establishment and retention. Only where these benefits surpass the costs should the reliefs be introduced/retained.

We end this section with a series of points relevant to the Commissions work in this area:

- Overall, CORI Justice welcomes the fact that the Commission on Taxation will review all these tax expenditures. Given the lack of published data on these schemes its work will be interesting and informative. The very fact that such limited data is currently publicly available only underscores the need for reform.
- The Commission should recommend that where data is not available on a tax expenditure's costs then that tax expenditure be discontinued – if it cannot be measured then it should not be available.
- CORI Justice believes that, in the context of low corporation and personal taxes, the role for tax expenditures is greatly reduced. A reform of the tax expenditures system and a radical reduction in their size and number should reflect this.
- The Commission should propose a set of new procedures which would be adopted by the Department of Finance when proposing the introduction of any new tax expenditure. Principally, these should involve a detailed internal evaluation of the costs and benefits of each new scheme. The lifetime costs of most of these schemes will run into many millions of euro and expenditure on this scale deserves detailed evaluation. These considerations should also include examination of the direct expenditure alternative.
- The Commission should review the adequacy of the new procedures adopted by the Revenue Commissioners, as required by Budget 2006, such that they are able to collect and provide accurate data on the scale and distribution of all tax expenditures.

- The Commission should recommend that each new or renewed tax expenditure should also be poverty proofed to establish the impact that its introduction will have on the income distribution, the level of median income and poverty rates.
- In our view many tax expenditures, in particular those giving relief to construction costs, offer/offered levels of relief that seem to have been chosen arbitrarily. For example, in the case of Section 23 relief we are unclear as to how the various relief levels offered were established and justified by the Department of Finance. Furthermore, it remains unclear to us why the same development could not have been achieved as a result of offering a considerably lower level of relief, one that was provided at a lesser cost to the exchequer. Some further insight into this issue from the Commission would be welcome.
- CORI Justice believes that discretionary tax expenditures are an inappropriate means of achieving policy objectives. In general these expenditures are neither efficient nor fair – we address this point in more detail below.
- The inequity in the distribution of pension contribution reliefs is of concern. The latest data available shows between two thirds and three quarters of the tax reliefs accruing to the top 20 per cent of earners. This situation should be fundamentally changed. CORI Justice believes that there should be a universal state pension in Ireland and the additional funding required to finance this approach could be provided by reducing the reliefs for private pensions.¹⁷
- CORI Justice believes that the Commission on Taxation should recommend that the Minister for Finance introduce a new law limiting the number of tax reliefs any one individual may avail of in each tax year. A limit of 5 would seem appropriate. Similarly, it should recommend that a new law limiting the value of tax reliefs any one individual may avail of in each tax year. An index linked limit of €250,000 per annum would seem more than generous.
- We believe that the Commission on Taxation should give extensive consideration to the complexity of the tax expenditure/relief system. Estimates from the Irish Taxation Institute, among others, highlight the large number and value of these reliefs not being taken up by individual taxpayers. The complexity and

¹⁷ For a detailed treatment of this proposal see Hughes (2008).

inaccessibility of the current system has to play a part in this problem – a drive for simplicity should accompany a drive for enhanced fairness.

4.1.2 Corporation Taxes

While we note, and regret, that the terms of reference of the Commission on Taxation indicate that it should abide by the Programme for Governments commitment to:

guarantee that the 12.5% rate of corporation tax will remain

we are of the opinion that corporation taxes are a relevant issue for any assessment of the Irish tax system now and in the years to come.

Following Budget 2003, the standard rate of corporation tax was reduced from 16 per cent to 12.5 per cent at a full year cost of €305m. This reduction followed another reduction in 2002 which brought the rate down from 20 per cent to 16 per cent. The total cost in lost revenue to the exchequer of these two reductions is estimated at over €50m per annum. Serious questions remain concerning the advisability of pursuing this policy approach. Ireland's corporation tax rate is now considerably below the corresponding rates in most of Europe. Windfall profits are flowing to a sector that is already extremely profitable. In particular, the Irish Banking sector is now recognised as the most profitable in Europe, a factor significantly related to the low levels of taxation these institutions pay.¹⁸

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

¹⁸ The annual reports of the major banking institutions also highlight further reductions in their tax liabilities via write-offs, investments etc. which result in the banks paying an effective tax rate considerably less than 12.5 per cent.

welcomes this as an overdue step in the right direction. The Commission on Taxation should examine the possibility of further expanding this approach.

As the European Union expands corporation tax competition is likely to intensify. Already Estonia and the Isle of Man have put in place a zero per cent corporation tax rate, Cyprus has set its rate at 10 per cent and Hungary continues to reduce its rate; others are likely to follow.¹⁹ Over the next decade, the period being considered by the Commission, Ireland will be forced to either ignore tax rates as a significant attraction/retention policy for foreign investors (this would be a major change in industrial policy) or to follow suit and compete by further cutting corporation tax. Consequently, there is a serious danger that Irish corporation taxes will be forced down to zero per cent during the next few years. Sweeney has warned of a dangerous situation where Ireland ends up “leading the race to the bottom” (2004:59). The costs of such a move, in lost exchequer income, would be enormous and CORI Justice believes that the Commission should offer some comment on the path Ireland should take in the years to come.

An alternative direction for corporation tax is to set a minimum rate for all EU countries. Given the international nature of company investment these taxes are fundamentally different from internal taxes, and the benefit of a European agreement which sets a minimum rate is clear. These would include protecting Ireland’s already low rate from being driven down even lower, protecting the jobs in industries which might move to lower taxing countries and protecting the revenue generated for the exchequer by corporate taxes. CORI Justice believes that an EU wide agreement on a minimum rate of corporation tax should be negotiated. We believe that the minimum rate should be set well below the 2007 EU-27 average rate of 24.5 per cent but above the existing low Irish level.²⁰ A rate of 17.5 per cent seems appropriate.

Finally, as we highlighted earlier, the Commission on Taxation should also give greater attention to the levels of effective taxation paid by corporate bodies in Ireland. CORI

¹⁹ It is worth noting that the Isle of Man has retained a 10 per cent rate on the profits of banking institutions.

²⁰ Data from Eurostat (2007:32).

Justice believes that if a rate of 12.5 per cent is to be maintained then in almost all cases this should be both the published and effective corporate tax rate.

4.1.3 Financing Local Government

The Commission has been invited to

consider options for the future financing of local government

a topic we address under four headings in this section. The context of this issue (the requirement for substantial increases in local government funding) has already been outlined. Overall, this is an area that has received extensive examination over the last three decades, a feature that contrasts with the minimal reforms in this area. We commence by outlining and supporting the findings of the most recent of these examinations, the 2005 Indecon report. In addition to the implementation of its findings we also believe that the Commission should recommend the introduction of: land rent taxes, taxes on second homes and windfall gain taxes.

(a) Indecon Report

The 2005 Indecon Economic Consultants report on the funding of local authorities offers a useful starting point for the consideration of reforms in this area. The report was commissioned by the Department of Environment, Heritage and Local Government and its main recommendations were:

Funding Recommendations

1. We recommend a significant increase in the level of resources available to local authorities over the period to 2010. Our estimates suggest that, based on current policies, there will be a requirement by 2010 for additional expenditure in nominal terms of the order of €1,000 to €2,000 million per annum compared to 2004 expenditures, if levels of service provision are to be maintained. When existing sources of revenue are taken into account this equates to an estimated funding gap of between €15 to €1,500m.
2. We recommend a significant change in the system of local government financing, with a move towards more locally-based sources of funding. While this will assist in meeting the additional resources required over the period to 2010, the principal reasons why this change is essential relate to the need to improve accountability and flexibility in decision making, to facilitate an acceleration of efficiency measures and to ensure a radical realignment between the cost of providing services and the

demand for such services.

3. We recommend that changes in the system of local government should be directed at increasing the share of local authority expenditure that is funded locally. The two key elements of this should comprise an increase in local charges and the introduction of selected targeted local taxation.
4. We recommend that local authorities should charge the full economic costs of providing services on behalf of central government.
5. We recommend an increase in certain charges where less than full economic costs apply, but would caution against an overestimation of the significance of these changes as a source of increased revenues.
6. We recommend the extension of water charges on an equitable basis. In particular, we recommend the introduction of water charges on non-principal private residences and water metering on all commercial properties. Developments on water charges should ensure that those on low incomes are protected.
7. We recommend the introduction of mechanisms to secure a contribution to local authorities' general funding requirements from non-principal private residences and from commercial buildings not currently covered by commercial rates. There are a number of options that could assist in achieving this objective, including the extension of rates to such properties or an element of locally determined stamp duties.

Expenditure Recommendations

8. We recommend that the proposed restructuring of the methods of funding local government should be used as a platform to accelerate efficiency improvements in local authority expenditure programmes.
9. We recommend a radical change in the incentives facing users of local authority services to improve efficiencies and reduce the costs of local authority services. This includes a wide range of measures (for example, incentives to local authority tenants to minimise maintenance costs, the charging of services to reduce excess demand, and differential pricing to direct users to lower cost delivery mechanisms).
10. We recommend a continuation and acceleration of the use of alternative delivery mechanisms to secure the most cost efficient delivery of local authority services. In particular, we believe there is potential for increased cost-effective contracting of services and the shared provision of services between local authorities.
11. We recommend that where local authority services are contracted to private sector local monopolies, that an appropriate regulatory framework is established to protect consumer interests and to prevent monopoly rents being generated (i.e. excessive profits).
12. We recommend that the provision of local authority services should be delivered on the most cost effective geographic basis, which due to economies of scale, may not in many cases be aligned with current local authority structures. This will require the provision of services either on a shared basis or by tendering services on a national or regional basis.

13. We recommend the introduction of significant structural and information changes to facilitate local authority managers and policymakers to implement on-going efficiency improvements. These include changes in, and standardisation of, information on local authority expenditures; changes in legislation to permit councils to appoint outside experienced specialists to audit committees; the establishment by all local authorities of audit committees focussed on securing on-going efficiency; and the enhancement of the Department's audit role in promoting value for money or the extension of the Comptroller and Auditor General functions to local authorities.
14. We recommend that the functions of local authorities and other agencies be subject to on-going assessment to ensure that costs are minimised and that the appropriate functions are undertaken by local authorities. Specifically we believe there may be merit in reviewing current responsibility for the Disabled Persons Grant scheme and for consideration of the merits of transferring water services to a regional or a national agency.

CORI Justice believes that these recommendations, though challenging, should be endorsed by the Commission on Taxation. We also underscore the need for the Commission to be conscious of the equity implications of many of these reforms – parallel waiver and redistribution schemes should be recommended.

In addition to the recommendations of the Indecon report, CORI Justice believes that there are other reforms that should be introduced in this area. These are outlined in the remainder of this section.

(b) Land Rent Taxes

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

Within this area the issue of land rent taxation is one that has received added attention in the recent past. Two papers at our 2004 Social Policy Conference directly addressed this issue (see O'Siochru, 2004:23-57; and Dunne, 2004:93-122) and the Chambers of Commerce of Ireland have published a report entitled *Local Authority Funding – Government in Denial* (2004) which called for an annual site tax. Where residential

property tax is concerned CORI Justice believes the introduction of an annual land rent tax would have a very positive impact on Ireland's tax situation. It would lead to a substantial broadening of the base at a single stroke and would also lead to a reduction of the tax-take required from other sources, thus providing an opportunity for Government to produce a just and fair tax system.

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

The arguments for a land-rent tax are to do with fairness and economic efficiency. Most of the reward of rising land values goes to those who own land, while most of the cost of the activities that create rising land values does not. This is because rising land values - for example, in prosperous city centres or prime agricultural areas - are largely created by the activities of the community as a whole and by government regulations and subsidies, while the higher value of each particular site is enjoyed by its owner. This means that it often pays land owners to keep sites unused in order to sell them later when (they hope) land values will have risen. Speculation on rising land values distorts land prices, generally making them significantly higher than they would otherwise be. NESC (2003:96) points out that the introduction of a tax on development land would have minimal economic effects given the immobility of land.

A land value tax is positive on both efficiency and equity grounds. From an efficiency perspective a site value tax would be a major step toward securing the tax base as it could not move to any location providing greater tax reductions. In doing this it would move the tax away from a transaction (such as stamp duty) which can make the tax base vulnerable as it is dependent on maintaining and increasing the scale of the transactions and move it instead to an immovable physical asset which is a much securer base. It

would have other efficiency impacts such as ensuring that derelict sites were developed and that land would not be held over, as appears to be the situation at present, in an attempt to increase its value by creating artificial scarcity of land for development.

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

In short, CORI Justice believes that land-rent taxation would lead to more efficient land use within the structure of social, environmental and economic goals embodied in planning and other legislation. The Commission on Taxation should recommend its introduction with its revenues used to finance and support local government.

(c) Second Homes

While addressing Ireland's housing problem, the *National Development Plan Mid-Term Review* (ESRI, 2003) pointed out the growing problem of second homes. It noted that a quarter of all houses built in 2003 were second (holiday) houses and will have nobody living in them for nine months of the year. Based on data collected by Census enumerators the CSO reported that on census night (April 23rd) 2006 there were 49,789 unoccupied holiday homes in Ireland representing approximately 3 per cent of the national housing stock. Table 17 outlines the county-by-county distribution of these holiday homes.

Table 17: The Number and Distribution of Holiday homes in Ireland, from Census 2006.			
County	No. Holiday Homes	County	No. Holiday Homes
Donegal	8,275	Louth	575
Wexford	6,601	Dublin City and County	418
Cork City and County	6,561	Kilkenny	406
Kerry	5,990	Meath	346
Mayo	4,216	Limerick City and County	346
Clare	3,624	Carlow	308
Galway City and County	3,172	Westmeath	271
Sligo	1,540	Longford	261
Waterford City and County	1,326	Offaly	220
Leitrim	1,192	Monaghan	171
Wicklow	1,156	Kildare	116
Roscommon	942	Laois	103
Tipperary	874		
Cavan	779	State	49,789

Source: CSO (2007:92)

What is often overlooked when this issue is being discussed is that the infrastructure to support these houses is substantially subsidised by the tax-payer. 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. CORI Justice supports the views of the ESRI (2003) and the Indecon report (2005:183-186; 189-190) on this issue. We believe that the Commission on Taxation should recommend 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 seems something perverse in the fact that the taxpayer is providing substantial subsidies to the owners of these unoccupied (mostly holiday) houses while so many people do not have basic adequate accommodation. The second house issue should be addressed so that priority can be given to supplying accommodation which people need and will be lived in all year round.

(d) Taxing Windfall Gains

The vast profits being made by property speculators on the rezoning of land by local authorities raises questions. In response CORI Justice has suggested two approaches which we believe the Commission should consider. In the short-term we believe that a substantial tax should be imposed on the profits earned from such decisions. As rezonings are made by elected representatives in the interest of society generally, it seems appropriate that a sizeable proportion of the windfall gains they generate should be made available to local authorities and used to address the ongoing housing problems they face.²¹

In the longer term, CORI Justice believes that a number of changes should be made to the way in which zoning decisions occur. The principal change we propose is the introduction of a law confining the rezoning of land to those lands in the ownership of local authorities. Operationally, this legislative change would require local authorities to first purchase land (either voluntarily or compulsorily) before then proceeding to rezone it. Taking the example of land being rezoned from agricultural use to development/housing use the process would involve a local authority purchasing the land at agricultural prices plus a small margin for the owner. The rezoning would then occur while the land was in local authority ownership and so the windfall gain on the land's value would be internalised to the local authority. The land would then be sold on to the developing agent. Simply, this change would eliminate speculation and ensure that all windfall gains resulting from rezoning would be retained by the local authority. CORI Justice believes that the profit from this process should then be targeted on funding local authorities to address the ongoing social housing problems being experienced in Ireland.

4.1.4 Financial Speculation taxes

CORI Justice believes that the Commission on Taxation needs to consider other methods of reforming and broadening the tax base. Within this area the concept of a financial speculation tax is worth examining.

²¹ Section 3.5 of our 2008 Socio-Economic Review entitled *Planning for Progress and Fairness* provides more detail on these housing problems (see pages 120-129).

Global currency trading has been increasing dramatically throughout the last few decades. It is estimated that a very high proportion of all financial transactions traded are speculative currency transactions. During the early 1990s this speculation resulted in a series of currency crises which had major implications for many developing countries where there was a decline in economic activity and a consequent increase in the levels of poverty. These speculative transactions are completely free of taxation.

There is growing support worldwide for the introduction of a tax on such speculative exchange transactions. The Tobin tax, proposed by the Nobel Prize winner James Tobin, provides a potential solution. It is a progressive tax, designed to target only those profiting from currency speculation. Therefore, it is neither a tax on citizens, nor on business. The international lobby group ATTAC (Association for the Taxation of Financial Transactions to Aid Citizens) supports a similar proposal.

The majority of foreign exchange dealings are done by one hundred of the world's largest commercial and investment banks. The scale of their dealings is estimated at US\$1.5 trillion worth of currency every day; all this in essentially unregulated financial markets. In 1998 the financial institution with the largest share of this market, Citibank, engaged in foreign exchange transactions worth US\$8.5 trillion, a value in excess of the corresponding US GDP for that same year. The scope of the Tobin tax varies. Initially, James Tobin suggested a tax on all purchases of financial instruments denominated in another currency. More recently, Canadian economist Rodney Schmidt has broadened the tax to include all foreign exchange transactions. These would include simple exchanges of one currency for another (spot transactions) as well as complex derivative financial instruments including forwards, swaps, futures and options if they involve two currencies.

The rate would be determined by each country enacting the tax, but the tax range recommended to produce moderate market calming and revenue-raising outcomes is between 0.1 and 0.25 per cent. While this may seem very small to consumers, relative to

VAT rates and income taxes, the impact on the margins of currency speculators would be enough to curb their activities.

The revenue from the tax would be considerable - somewhere in the region of €50 -100 billion per year. Though the effect of the tax over time would be to reduce the volume of currency speculation and thus the potential revenue from the tax, nevertheless the intake will remain high. It is proposed that the revenue generated by this tax be used for national social development and international development co-operation purposes. According to the United Nations, the amount of annual income raised from the tax would be enough to guarantee to every citizen of the world basic access to water, food, shelter, health and education. Therefore, this tax has the potential to wipe out the worst forms of material poverty throughout the world.

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

4.2 Building a Fairer Taxation System

The need for fairness is very obvious today and CORI Justice believes that this should be a central objective of the Commission on Taxation. All the issues raised above have a fairness dimension. Here we address some further issues that arise particularly in the present income tax system. These are:

4.2.1 Standard Rating Discretionary Tax Expenditures

4.2.2 Keeping the Minimum Wage Out of the Tax Net

4.2.3 Increasing Tax Credits Rather Than Decreasing Tax Rates

4.2.4 Increasing Tax Credits Rather Than Widening Tax Bands

4.2.5 Introducing Refundable Tax Credits

4.2.6 Introducing a Refundable Tax Credit For Children

4.2.7 Reforming Individualisation

4.2.1 Standard Rating Discretionary Tax Expenditures

One crucial step towards achieving a fairer tax system is to standard rate all discretionary tax reliefs/expenditures, making them available at the 20 per cent rate only. If there is a legitimate case for making a tax relief/expenditure available then it should be made available in the same way to all. It is unfair that some people can claim certain tax reliefs at a rate of 20 per cent (the standard tax rate) and others with higher incomes can claim it at a higher rate. That unfairness is further exacerbated by the fact that it is those who are better off who can claim these reliefs at the upper rate. The three examples in Box 1 illustrate this unfairness.²²

²² The average industrial wage in 2006 was reported by the CSO as €601.21 per week (CSO, 2007:2). Box 1 increases this amount using projections for the growth in gross average industrial earnings (GAIE) as published in the ESRI's Medium Term Review. This suggests a GAIE level in 2008 of approximately €655 (€650-€660) per week which corresponds to an annual gross income of €34,151.70.

Box 1: Discretionary Tax Expenditures			
Example 1: HOW MUCH TO GET YOUR TEETH FIXED?			
Situation: A person requires €1,000 worth of dental work (e.g. a dental crown)			
Person earning the average industrial wage, €34,000 in 2008		Person earning twice the average industrial wage, €68,000 in 2008	
Dental Bill	€1,000	Dental Bill	€1,000
- Tax relief @ 20%	- €200	- Tax relief @ 41%	- €410
Net Cost	€800	Net Cost	€90
Example 2: WHAT IS THE COST OF BASIC MEDICAL EXPENSES?			
Situation: A person incurs €150 of unrefunded medical expenses (one visit to a GP and filling a prescription)			
Person earning the average industrial wage, €34,000 in 2008		Person earning twice the average industrial wage, €68,000 in 2008	
Unrefunded medical expenses	€150	Unrefunded medical expenses	€150
- Tax relief @ 20%	- €30	- Tax relief @ 41%	- €61.50
Net Cost	€120	Net Cost	€88.50
Example 3: WHAT IS THE COST OF TOPPING UP YOUR PENSION?			
Situation: A person decides to top-up their personal pension by €5,000			
Person earning the average industrial wage, €34,000 in 2008		Person earning twice the average industrial wage, €68,000 in 2008	
Increase in pension fund	€5,000	Increase in pension fund	€5,000
- Tax relief @ 20%	- €1,000	- Tax relief @ 41%	- €2,050
Net Cost	€4,000	Net Cost	€2,950

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

expenditures offers the potential to simultaneously make the tax system fairer and fund these necessary developments without any significant macroeconomic implications.²³

Accordingly we believe the Commission should recommend that relief on all discretionary tax expenditures where available should be at the standard rate only.

4.2.2 Keeping the Minimum Wage Out of the Tax Net

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

4.2.3 Increasing Tax Credits Rather Than Decreasing Tax Rates

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

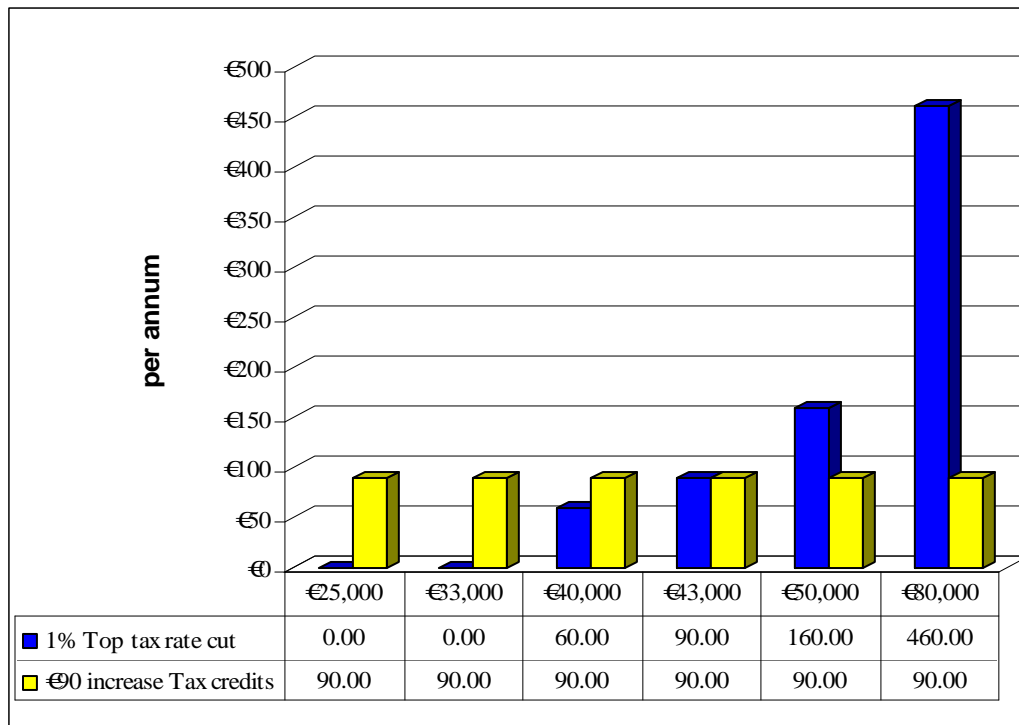
To explain this point further, we start by comparing a change in tax credits against a change in tax rates (the next section makes a comparison with tax bands). One of the initiatives announced in Budget 2007 was a cut in the top tax rate of one per cent (from 42 to 41 per cent). In his Budget speech the Minister indicated that the full year cost of this change was €186m. The Budget documentation also indicated that the full-year cost of a €90 increase in the tax credits of every tax payer equaled €185m. Therefore, both

²³ See O'Toole and Cahill (2006:215) who also reach this conclusion.

policy changes would have roughly the same exchequer cost. Chart 3 compares these two options and the increased income they would delivered to earners across the income distribution.

An increase in tax credits would provide the same value to all taxpayers across the income distribution; provided they are earning sufficient to pay more than €0 in income taxes. Therefore, the increased income received by an earner on €25,000 and on €80,000 is the same – an extra €90. However, a decrease in the top tax rate only benefits those paying tax at that rate. Therefore, the earner on €25,000 gains nothing from this change while those on €50,000 gain €160 per annum and those on €80,000 gain €460 per annum. The higher your income the greater the gain.

Chart 3: Budget 2007 comparison of a 1% cut in the top tax rate and an increase in tax credits of €90 for each taxpayer.



As chart 3 shows, in Budget 2007 all single people earning less than €43,000 would have gained more from an increase in tax credits rather than a decrease in the top tax

rate. For a couple (not shown in the diagram), all those earning less than €6,000 would have been better off had the government used the same money to deliver an increase in tax credits rather than a decrease in the top tax rate.

In terms of fairness, increasing tax credits is a fairer option than decreasing the top tax rate. CORI Justice believes that the Commission on Taxation should point this fact out and indicate that future Budgets should always take this option when there is money available to reduce income taxes.²⁴

4.2.4 Increasing Tax Credits Rather Than Widening Tax Bands

If €35 million were available for distribution in a Budget it could be used to either (i) increase the 20 per cent tax band by €5,000 (full year cost €36.1m) or (ii) increase personal tax credits by €250 a year (full-year cost €33.75m).²⁵ While the exchequer cost of these two alternatives is roughly the same, their impact is notably different:

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

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

In terms of fairness, increasing tax credits is a fairer option than widening the standard rate tax band. Again, CORI Justice believes that the Commission on Taxation should

²⁴ Tax credits are also relevant in the context of the fair distribution of any reductions in overall income tax levels associated with the introduction of environmental taxes.

²⁵ Figures from Department of Finance pre-Budget 2008 income tax ready reckoner.

point this fact out and indicate that future Budgets should take this option when it has money available to reduce income taxes. It has the additional advantage of helping to address the ‘working poor’ issue which, as we have highlighted elsewhere, is emerging as a growing problem that requires a policy response.²⁶

4.2.5 Introducing Refundable Tax Credits

CORI Justice established a working group to examine the issue of refundable tax credits for Ireland in October 2007. Our aim in establishing this group is that it should build on the available evidence to provide the data, technical details and policy implications appropriate for the introduction of a refundable tax credit system in Ireland. To date the group has had a number of meetings and it plans to publish its initial report by October 2008. We look forward to providing the Commission on Taxation with the details of this report.

The move from tax allowances to tax credits was completed in Budget 2001. This was a very welcome change because it put in place a system that had been advocated for a long time by a range of groups including CORI Justice. One problem persists however, a problem that the old system of tax allowances also had. If a person does not earn enough to use up his or her full tax credit then he or she will not benefit from any tax reductions introduced by government in its annual budget. In effect this means that, under the present system, those with the lowest pay will not benefit in any way at budget time.

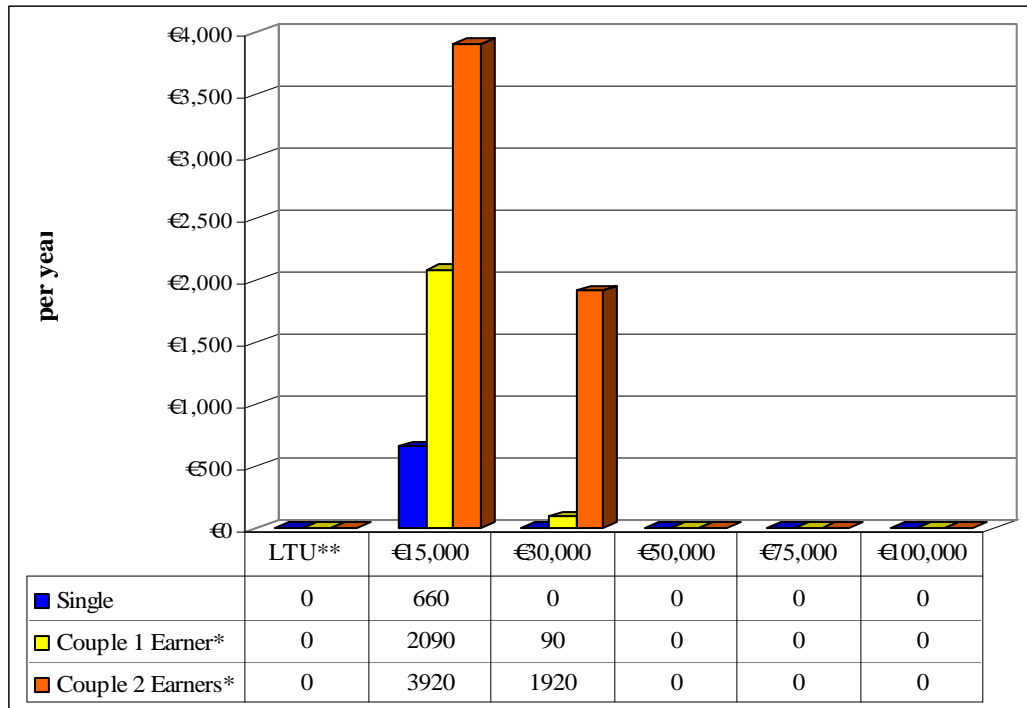
A simple solution exists to rectify this problem: make tax credits refundable. This would mean that the part of the tax credit that an employee did not benefit from would be “refunded” to him/her by the state. A Working Group established under the *Programme for Prosperity and Fairness* examined the feasibility of making this happen but did not complete its report.

The major advantage of making tax credits refundable would lie in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). Chart 4

²⁶ See section 3.1(a) of our 2008 Socio-Economic Review entitled *Planning for Progress and Fairness* (pages 22-46).

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



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

** LTU: Long Term Unemployed

As regards administering this reform the central idea recognises that most people with regular incomes and jobs would not receive a cash refund of their tax credit because their incomes are too high; they would simply benefit from the tax credit as a reduction in their tax bill. Therefore, as chart 4 shows no change is proposed for these people and they would continue to pay tax via their employers, based on their net tax liability after their employers have deducted tax credits on behalf of the Revenue Commissioners. For other people on low or irregular incomes, the refundable tax credit could be paid in either of two ways:

- The person entitled to the credit could apply for it to the Revenue Commissioners at the end of the year

or

- They could be given the option of requesting that their tax credit be paid directly e.g. into their bank account, by the Department of Social and Family Affairs (DSFA); in these cases employers would not subtract the tax credit from the gross tax liability of these people. Instead, the DSFA would supply them with a book of payments (as is done with Child Benefit payments at present). [In this situation it is important to point out that nobody on social welfare would see their income increase through receipt of a refundable tax credit. In a situation where they were receiving such a credit their social welfare payment would be reduced by the value of the tax credit].

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

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

and

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

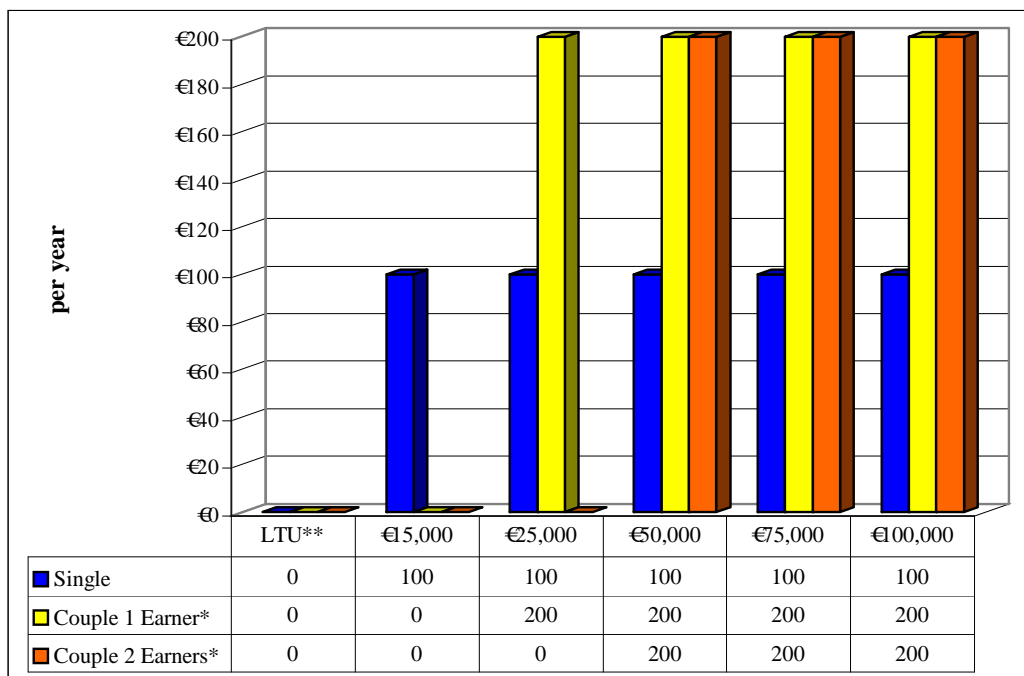
Employees and self-employed, including farmers, are encompassed within the proposal. Spouses could opt to receive the 'married' part of the personal tax credit and the Home Working Spouse tax credit directly from DSFA.

Following the introduction of refundable tax credits, all subsequent increases in the level of the tax credit would be of equal value to all employees.

To illustrate the benefits of this approach, charts 5 and 6 compare the benefits of a €100 increase in tax credits before and after the introduction of refundable tax credits. Chart 5 shows the effect as the system is currently structured – an increase of €100 in credits, but these are not refundable. It shows that the gains are allocated equally to all categories of

earners above €50,000. However, there is no benefit for these workers whose earnings are not in the tax net. Chart 6 shows how the benefits of a €100 a year increase in tax credits would be distributed under a system of refundable tax credits. This simulation displays the equity attached to using the tax-credit instrument to distribute budgetary taxation changes. The benefit to all categories of income earners (single/couple, one-earner/couple, two-earners) is the same. Consequently, in relative terms, those earners at the bottom of the distribution do best.

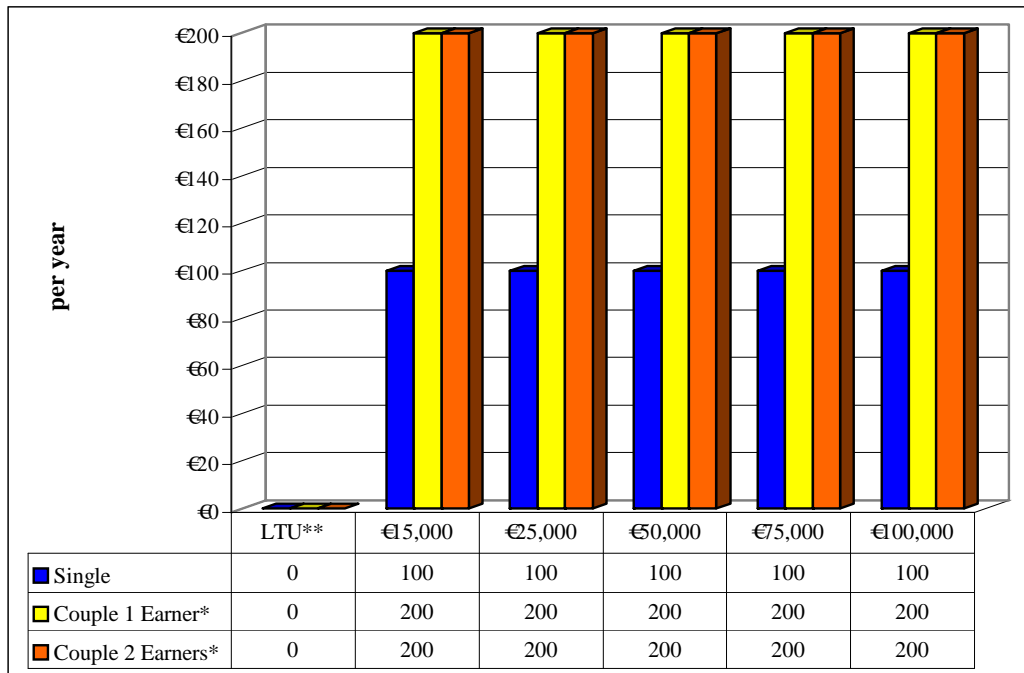
Chart 5: How much better off would people be if tax credits were increased by €100 per person?



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

** LTU: Long Term Unemployed

Chart 6: How much better off would people be if tax credits were increased by €100 per person and this was refundable?



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

Overall the merits of adopting this approach are: that every beneficiary of tax credits could receive the full value of the tax credit; that the system would improve the net income of the workers whose incomes are lowest, at modest cost; and that there would be no additional administrative burden placed on employers. Outside Ireland, the refundable tax credits approach has gathered more and more attention over recent years including a detailed Brookings Policy Briefing on the issue published in the United States in late 2006 (see Batchelder et al, 2006). In reviewing this issue in the Irish context Rapple stated that “the change is long overdue” (2004:140). A costing of this proposal is contained in Ward (2008), pp. 85-88.

CORI Justice believes that if the tax system is to be fair then tax credits should be made refundable. We look forward to providing the Commission with further information on this issue and we believe that the introduction of refundable tax credits should be an important recommendation of the Commission’s work.

4.2.6 Introducing a Refundable Tax Credit for Children

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

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

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

This payment would be effective in targeting child poverty among those on low incomes and would improve support for childcare significantly. Government's tax-take would be reduced while Government expenditure would not increase - both developments seen as positive by many commentators. CORI Justice has urged Government to introduce a refundable tax credit for all children along these lines. We believe that the Commission on Taxation should also endorse this position.

4.2.7 Reforming Individualisation

CORI Justice has long supported the individualisation of the tax system. However, the process of individualisation followed to date in Ireland 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.

All the predictions currently indicate that there will be a future increase in the level of unemployment. Given the current form of individualisation, couples who see one partner lose his/her job will end up even worse off than they would have been had the current form of individualisation not been introduced. Before individualisation was introduced, the standard-rate income-tax band was €35,553 for all couples. After that they would start paying the higher rate of tax. Now, the standard-rate income-tax band for single-income couples is €44,400, while the band for dual-income couples is €70,800. If one spouse (of a couple previously earning two salaries) leaves a job voluntarily or through redundancy, the couple loses the value of the second tax band. The Commission should be aware of this inbuilt unfairness in the individualisation system and recommend that it be reformed.

4.3 Introducing Environmental Taxes

The terms of reference of the Commission on Taxation ask that it consider how:

to introduce measures to further lower carbon emissions and to phase in on a revenue neutral basis appropriate fiscal measures including a carbon levy over the lifetime of the Government,

and to

investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax

CORI Justice welcomes this element of the Commission's work and this section of our submission details relevant views in each of four areas:

4.3.1 Carbon Taxes

4.3.2 Cap and Share

4.3.3 Environmental Taxation and Poor Households

4.3.4 Environmental Taxation and Tax Credits

4.3.1 Carbon Taxes

CORI Justice welcomed the Budget 2003 commitment by government to impose a carbon tax/levy. Given the support for this measure from leading government ministers, the all-party Oireachtas Committee on the Environment and the 2004 Enterprise Strategy Report we were disappointed that the Government subsequently chose to renege on its promise to introduce this scheme. The excuse used by the Department of Finance against the scheme's introduction was that the revenue collected would be small and not worthwhile collecting. This conclusion is ironic given the advice by the Department itself, the ESRI and the Enterprise Strategy group among others that the appropriate approach was to introduce this tax at a small level initially and to increase it over time. Given Ireland's pollution record (see earlier in this submission) there can be little doubt that over the next few years more environmental taxes will be necessary. This may involve reversing the 2004 carbon tax decision. The Commission on Taxation has been asked to consider this issue and we look forward to a carbon tax being introduced as committed to in the current *FF/Green/PD Programme for Government (2007:6)*.

4.3.2 Cap and Share

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

At our 2004 Social Policy Conference Douthwaite provided some detail on this approach (2004: 125-137). He suggested that a tradable quota system could be introduced and to achieve this, Ireland would divide the total tonnage of carbon dioxide it is allowed to emit under the agreement it reached with its EU partners under the Kyoto arrangements – its 1990 emissions plus 13 per cent - by its current population and issue permits for that amount - roughly 15.5 tonnes of CO₂ per head - to the population, perhaps at the rate of 1.3 tonnes each month. Citizens could then sell on these permits, through the financial institutions, and polluters such as large firms and oil distribution companies would have to purchase them. The price received for these permits would vary according to the demand for fossil energy and just how well Ireland and the rest of the EU was doing in getting emission levels down. If the EU economy was booming and a lot of energy was being used, the price of the permits would be high but, equally, so would be the price of petrol, electricity and home-heating oil. If the economy was depressed, these prices, and the amount we got for our permits, would fall. This builds an automatic cushion against higher energy prices into the system, which protects, in particular, the least well-off who, although they spend a greater proportion of their incomes on energy, spend less on it in absolute terms. The provision of this cushion is very important since, as energy is used in the production of everything we use and consume, all prices will go up as a result of any restrictions on energy use. The proceeds from the permit sales would also provide the average person with enough extra purchasing power to cover the higher costs of the fuels and (because of the higher energy prices) the other goods and services they buy, provided that their purchases are not excessively energy-intensive. However, if some individuals were able to cut their direct and indirect fuel use below their entitlement, they would make themselves better off. On the other hand, if they continued to drive around in their SUVs, they would have to pay more frugal people for the privilege. The fact that fossil fuels themselves and goods made with significant amounts of fossil energy would cost more would encourage people to find lower-fossil-energy alternatives and enable the transition to renewable energy sources to gather pace. In short, a quota system would give people the price signals to move in the right direction.^{27 28}

²⁷ A more comprehensive outline of this proposal is presented in Douthwaite (2004) and in Feasta/NEF (2006).

4.3.3 Environmental Taxation and Poor Households

The extent of Ireland's pollution problem is clear from the studies outlined above. Furthermore, it is also clear that if we are to seriously address this problem then new environmental taxes are necessary. In particular, the commitments in the *National Climate Change Strategy* and *Programme for Government* to introduce some form of carbon taxation should be met.

One of the objections presented to the introduction of these taxes is that they would substantially damage the economic position of poor households. Indeed research by the ESRI has confirmed this. However, a series of research papers by the ESRI has shown that it is possible to insulate poorer households from the effects of these new taxes (see Bergin et al 2002:25; Scott and Eakins, 2002). Scott and Eakins have suggested that a proportion of the revenue generated by new carbon taxes should be transferred to the Department of Social and Family Affairs and used by them to increase payments (in particular fuel allowances) given to poor households. Such an increase in these payments would therefore compensate poorer households for the effect of the new tax and consequently ensure that Ireland's poorest households do not suffer.

CORI Justice believes that environmental taxes should be introduced and that the compensation mechanism proposed for poorer households should be simultaneously implemented. In these circumstances the argument that these carbon taxes would substantially damage the economic position of poor household cannot be justified or used as an objection to the policy.

4.3.4 Environmental Taxation and Tax Credits

We have already discussed the merits of using tax credits above. The recent ESRI *Medium Term Review 2008-2015* suggests that any increase in environmental taxes should lead to a parallel reduction in income taxation levels (FitzGerald et al, 2008: 99-

²⁸ The CORI Justice working group on refundable tax credits is also examining the possibility of the 'share' element of this scheme being administered via a refundable tax credits.

126). Were this revenue neutral approach to be adopted, CORI Justice believes that any reductions in overall income tax levels should be fairly distributed via the tax credit system (and ideally via a refundable tax credit for all).

5. CONCLUSION

As we have indicated throughout this submission, the taxation system plays a very important part in Irish society. The scale and importance of that role is reflected in the issues highlighted above. We hope this submission assists the Commission on Taxation in forming its views on the various developments and reforms required for the years to come. We would be happy to meet the Commission to discuss these issues throughout its period of operation.

6. REFERENCES

Batchelder, L.L., F. Goldberg and P.R. Orszag (2006), “Reforming Tax Incentives into Uniform Refundable Tax Credits” *Brookings Institution Policy Brief*. Washington, Brookings Institution.

Begg, D. (2003), “The Just Society - Can we afford it?” in Reynolds B. and S. Healy (eds.) *Ireland and the Future of Europe: leading the way towards inclusion?*, Dublin, CORI.

Bennett M., D. Fadden,. D. Harney, P. O’Malley, C. Regan and. L. Sloyan (2003) *Population Ageing in Ireland and its Impact on Pension and Healthcare Costs*. Report of Society of Actuaries Working Party on Population Studies. Society of Actuaries in Ireland.

Bergin A., Fitz Gerald J. and Kearney I. (2002), *The Macro-economic Effects of Using Taxes or Emissions Trading Permits to Reduce Greenhouse Gas Emissions*, paper presented to ESRI conference entitled “The sky's the limit: efficient and fair policies on global warming”, December, Dublin.

Bristow, J. (2004). *Taxation in Ireland: an economist’s perspective*, Dublin, Institute of Public Administration.

Central Statistics Office (2004), *Population and Labour Force Projections 2006-2036*, Dublin, Stationery Office.

Central Statistics Office (2006), *EU Survey on Income and Living Conditions 2005 Results*, Dublin, Stationery Office.

Central Statistics Office (2006), *Measuring Ireland’s Progress 2006*, Dublin, Stationery Office.

Central Statistics Office (2007), *Census 2006: Principal Demographic Results*, Dublin, Stationery Office.

Central Statistics Office (2007), *Census 2006: Various Volumes*, Dublin, Stationery Office.

Central Statistics Office (2007), *EU Survey on Income and Living Conditions 2006 Results*, Dublin, Stationery Office.

Central Statistics Office (2007), *Industrial Earnings and Hours Worked*, Dublin, Stationery Office.

Central Statistics Office (2007), *Statistical Yearbook of Ireland*, Dublin, Stationery Office.

Central Statistics Office (2007). *National Income and Expenditure Accounts*, Dublin, Stationery Office.

Central Statistics Office (2008), *Population and Labour Force Projections 2011-2041*, Dublin, Stationery Office.

Chambers of Commerce of Ireland (2004), *Local Authority Funding – Government in Denial*, Dublin.

Collins, M.L. (2004), "Taxation in Ireland: an overview" in B. Reynolds, and S. Healy (eds.) *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI Justice Commission.

Collins, M.L. and C. Menton (2006), "Evidence Based Social Policy Making", in Healy, S., B. Reynolds and M.L. Collins, *Social Policy in Ireland: Principles, Practice and Problems*, Dublin, Liffey Press.

CORI Justice (2005), *Taxation – Policy Briefing*, Dublin, CORI.

CORI Justice (2007), *Budget 2008- Analysis and Critique*, Dublin, CORI.

CORI Justice (2007), *Submission to Department of Environment, Heritage and Local Government Public Consultation on Options for rebalancing of annual motor tax charges to take account of CO₂ emission levels*, Dublin, CORI.

CORI Justice (2007), *Submission to Department of Finance Public Consultation on Options for revising the VRT system to take greater account of CO₂ emission levels*, Dublin, CORI.

CORI Justice (2008), *Planning for Progress and Fairness – Socio economic review 2007*, Dublin, CORI.

CORI Justice Commission (2005), *Submission to Department of Finance Consultation Process on the Review of Tax Reliefs and High Earners 2005*, Dublin, CORI.

Cowen, B. (2008) Speech deliver to Dáil Eireann following election as Taoiseach. www.taoiseach.ie

Dail Eireann (2003) Report of *the All-Party Oireachtas Committee on the Environmens*, Dublin.

Department of Enterprise, Trade and Employment (2004), *Enterprise Strategy Report*, Dublin, Stationery Office.

Department of Finance (1982), *Report of the Commission of Taxation*, Dublin, Stationery Office.

Department of Finance (2004), *Budget 2005*, Dublin, Stationery Office.

Department of Finance (2005), *Budget 2006*, Dublin, Stationery Office.

Department of Finance (2006), *Budget 2006 – Review of Tax Schemes Volumes I, II and III*. Dublin, Stationery Office.

Department of Finance (2006), *Budget 2007*, Dublin, Stationery Office.

Department of Finance (2007), *Budget 2008*, Dublin, Stationery Office.

Department of Finance (2007), *Income Tax Ready-Reckoner (pre-budget edition)*, Dublin, Stationery Office.

Department of the Environment and Local Government (2000), *National Climate Change Strategy*, Dublin, Stationery Office.

Department of the Environment and Local Government (2007), *National Climate Change Strategy*, Dublin, Stationery Office.

Department of the Taoiseach (2000), *Programme for Prosperity and Fairness*, Dublin, Stationery Office.

Department of the Taoiseach (2006) *Towards 2016 - Ten-Year Framework Social Partnership Agreement 2006-2015*, Dublin, Stationery Office.

Dowthwaite, R. (2004), "Tradable Quotas: the fairer alternative to eco-taxation" in B. Reynolds, and S. Healy (eds.) *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI Justice Commission.

Dunne, T. (2004), "Land Values as a Source of Local Government Finance" in B. Reynolds, and S. Healy (eds.) *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI Justice Commission.

Environmental Protection Agency (2006), *Ireland's Environment - 2006*, Dublin, EPA.

Environmental Protection Agency (2007), *Environment in Focus - 2006*, Dublin, EPA.

Environmental Protection Agency (2007), *Ireland's Greenhouse Gas Emissions – Provisional Estimates for 2005*, Dublin, EPA.

Environmental Protection Agency (2008), *Ireland's Greenhouse Gas Emissions in 2006*, Dublin, EPA.

Eurostat (2004). *Structures of the Taxation System in the European Union, 1995-2002*. Luxembourg, Eurostat.

Eurostat (2007), *Europe in Figures – Eurostat Yearbook 2006-07*, Luxembourg.

Eurostat (2007), *Taxation Trends in the European Union*, Luxembourg, Eurostat.

Eurostat (various editions), *Statistics in Focus*, Luxembourg.

Feasta and New Economics Foundation (NEF) (2006), *The Great Emissions Rights Give-Away*. Feasta and NEF.

Fianna Fail, Green Party and Progressive Democrats (2007). *Programme for Government*. Dublin.

FitzGerald, J. A. Bergin, I. Kearney, A. Barrett, D. Duffy, S. Garrett and Y. McCarthy (2005), *Medium-Term Review: 2005-2012*, Dublin, ESRI.

FitzGerald, J. A. Bergin, T. Conefrey, S. Diffney, D. Duffy, I. Kearney, S. Lyons, L. Malaguzzi Valeri, K. Mayor and R. Tol (2008), *Medium-Term Review: 2008-2015*, Dublin, ESRI.

Government of Ireland, (2004) *Ireland: National Development Plan Mid-Term Review*, Dublin, Stationery Office.

H.M. Treasury (2004). *Financial Statement and Budget Report, 2004*. London, H.M. Treasury.

Healy S. and B. Reynolds. (2004), "Towards a Fairer Tax System for the 21st Century" in Reynolds B. and S. Healy (eds.) *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI.

Hughes, G., "The case for a Universal State Pension: Lessons from New Zealand for Ireland's Green paper on Pensions" in Reynolds, B. and S. Healy (eds.) *Making Choices - Choosing Futures: ireland at a Crossroads*, Dublin, CORI.

IMD (2007), *IMD World Competitiveness Yearbook*, Lausanne, Switzerland.

Indecon (2005), *Indecon Review of Local Government Funding – Report commissioned by the Minister for Environment, Heritage and Local Government*. Dublin, Stationery Office.

International Monetary Fund (2004), *World Economic Outlook*, Washington, IMF.

National Economic and Social Council (2003), *An Investment in Quality: Services, Inclusion and Enterprise*, Dublin, NESC.

National Economic and Social Council (2005), *The Developmental Welfare State*, Dublin, NESC.

National Treasury Management Agency (2006), *Presentation to the Dáil Public Accounts Committee*, March.

O'Siochru, E. (2004), "Land Value Tax: unfinished business" in B. Reynolds, and S. Healy (eds.) *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI Justice Commission.

O'Toole, F. and N. Cahill (2006), "Taxation Policy and Reform", in Healy, S., B. Reynolds and M.L. Collins, *Social Policy in Ireland: Principles, Practice and Problems*, Dublin, Liffey Press.

OECD (2004), *United Kingdom– Country Report*, Paris, OECD.

OECD (2007). *Revenue Statistics*, Paris, OECD.

OECD (2008), *Economic Survey of Ireland*. Paris, OECD.

Power, J. (2003) "After Strong Growth, Serious Problems" in J. Mulholland (ed.) *Why Not? Building a Better Ireland*, MacGill Summer School.

Punch, A. (2006), "Projecting Ireland's Population at a Time of Major Demographic Change", in Healy, S., B. Reynolds and M.L. Collins, *Social Policy in Ireland: Principles, Practice and Problems*, Dublin, Liffey Press.

Rapple, C. (2004), "Refundable Tax Credits" in B. Reynolds, and S. Healy (eds.) *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI Justice Commission.

Rapple, C. (2004), "Tax Expenditures, Incentives and PRSI" in B. Reynolds, and S. Healy (eds.) *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI Justice Commission.

Revenue Commissioners (various), *Effective Tax Rates for High Earning Individuals*, Dublin, Stationery Office.

Revenue Commissioners (various), *Statistical Report various years*, Dublin, Stationery Office.

Reynolds B. and S. Healy (2004) eds. *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI Justice

Reynolds, B. and S. Healy (1989) *Poverty and Taxation Policy*, Dublin, CORI Justice Commission.

Scott S. and Eakins J. (2002), *Distributive effects of carbon taxes*, paper presented to ESRI conference entitled “The sky's the limit: efficient and fair policies on global warming”, December, Dublin.

Sweeney, P. (2004), “Corporation Tax: leading the race to the bottom” in B. Reynolds, and S. Healy (eds.) *A Fairer Tax System for a Fairer Ireland*, Dublin, CORI Justice Commission.

United Nations (1997), *United Nations Framework Convention on Climate Change – Kyoto Protocol*, New York: United Nations Publications.

Ward, S. (2008), "Basic Income in Ireland: Surveying Three Decades" in Reynolds B. and S. Healy (eds.) *Making Choices - Choosing Futures: Ireland at a Crossroads*, Dublin, CORI Justice

World Economic Forum (2003). *Global Competitiveness Report 2003-04*. www.weforum.org

World Economic Forum (2007), *Global Competitiveness Report 2007-08*. www.weforum.org

APPENDICES

Appendix 1: Terms of Reference of the Commission on Taxation

Having regard to the commitments on economic competitiveness and on taxation contained in the Programme for Government, in particular, the commitments:

- to keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the tax system,
- to ensure that our regulatory framework remains flexible, proportionate and up to date,
- to introduce measures to further lower carbon emissions and to phase in on a revenue neutral basis appropriate fiscal measures including a carbon levy over the lifetime of the Government, and
- the guarantee that the 12.5% rate of corporation tax will remain.

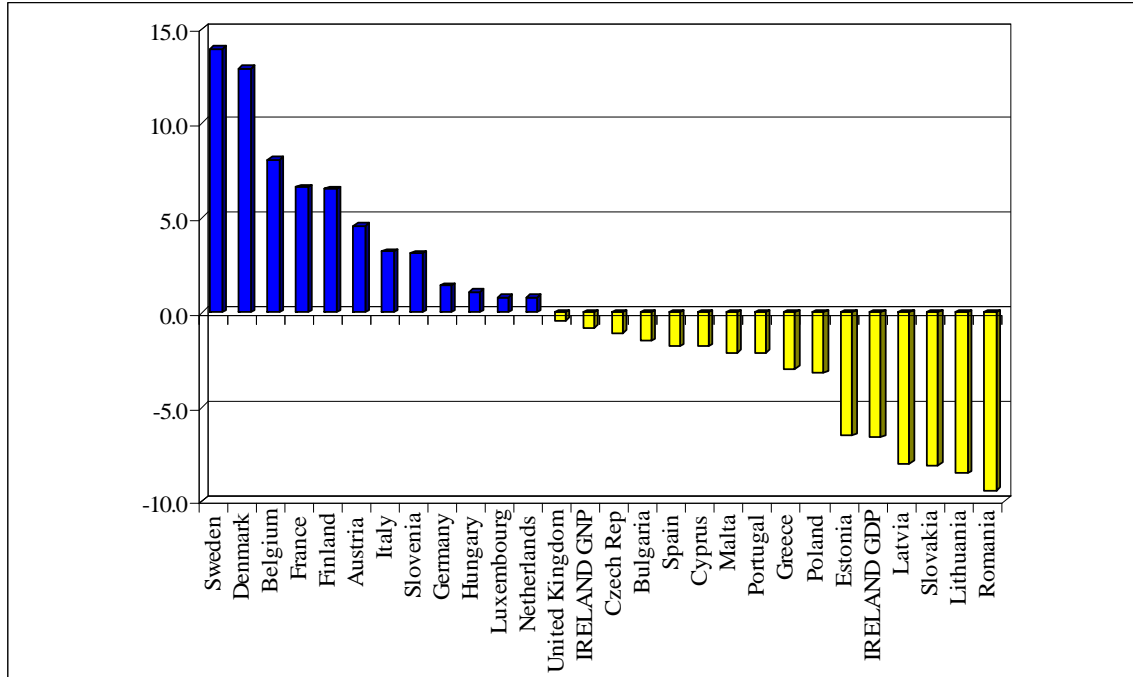
The Commission is invited, in the context of maintaining an equitable incidence of taxation and a strong economy, to consider the structure of the taxation system and specifically to:

- consider how best the tax system can support economic activity and promote increased employment and prosperity while providing the resources necessary to meet the cost of public services and other Government outlays in the medium and longer term;
- consider how best the tax system can encourage long term savings to meet the needs of retirement;
- examine the balance achieved between taxes collected on income, capital and spending;
- review all tax expenditures with a view to assessing the economic and social benefits they deliver and to recommend the discontinuation of those that are unjustifiable on cost/benefit grounds;
- consider options for the future financing of local government, and,
- investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax.

As the introduction of a carbon tax requires a completely new tax charge and structure, the Commission is asked to commence work in this area immediately. The Commission is requested to report on the results of its examination and consideration and to make such recommendations as, and when, it thinks fit to the Minister for Finance but not later than 30 September 2009.

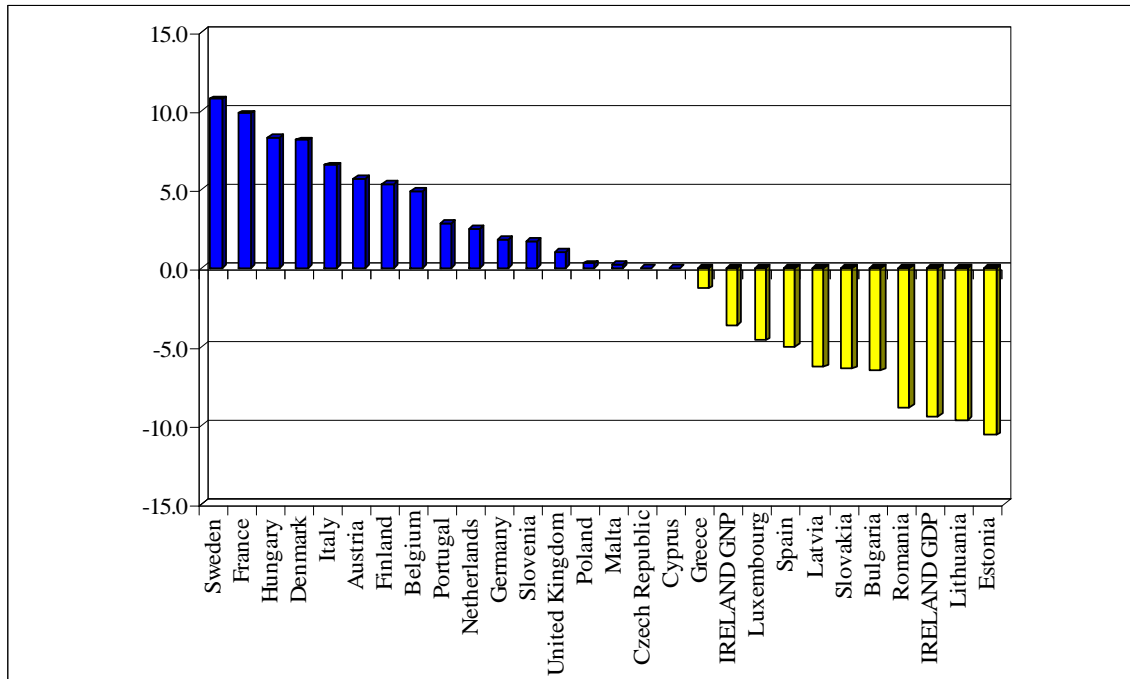
Appendix 2: Graphical Versions of Tables 1 and 2

Table A2.1: Total tax revenue as a % of GDP, for EU-27 Countries, 2005 – variation from the EU-average



Source: As outlined in table 1.

Table A2.2: Total Government Expenditure as a % of GDP, for the EU-27, 2006–variation from the EU-average



Source: As outlined in table 2.

Appendix 3

Table A3.1: Effective tax rates in Ireland, 1997-2008

	1997	1998	1999	2000	2001	2002
Single earner on €25,000	33.7%	31.2%	29.3%	24.0%	17.3%	16.2%
Couple 1 earner on €40,000	29.2%	26.8%	24.3%	20.2%	16.6%	15.7%
Couple 2 earners on €60,000	36.6%	34.2%	32.8%	28.0%	22.0%	19.3%
	2003	2004	2005	2006	2007	2008
Single earner on €25,000	15.7%	14.7%	13.5%	12.5%	10.9%	8.3%
Couple 1 earner on €40,000	15.5%	14.9%	13.2%	11.5%	10.2%	9.4%
Couple 2 earners on €60,000	18.9%	18.1%	16.0%	14.0%	12.7%	12.2%

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

Appendix 4: Table of Contents from “*A Fairer Taxation System for a Fairer Ireland*” (Reynolds and Healy (eds), CORI, 2004).

TABLE OF CONTENTS

Introduction

1. Taxation in Ireland: An overview

Micheál Collins

2. Expanding the Tax Base

2.1. Land Value Tax: Unfinished Business

Emer Ó Siochrú

2.2. Corporation Tax: Leading the Race to the Bottom

Paul Sweeney

2.3. Tax Expenditures, Incentives and PRSI

Colm Rapple

2.4. Land Values as a Source of Local Government Finance

Tom Dunne

3. Inclusion Through the Tax System

3.1. Tradable Quotas - The Fairer Alternative to Eco-Taxation

Richard Douthwaite

3.2. Refundable Tax Credits

Colm Rapple

3.3. Individualisation: Fables and Facts

Tim Callan

4. Towards a Fairer Tax System for the 21st Century

Seán Healy and Brigid Reynolds

Appendix 5: Policy Proposals on Taxation from CORI Justice's 2008 Socio-Economic Review, *Planning for Progress and Fairness* (pp 95-97).

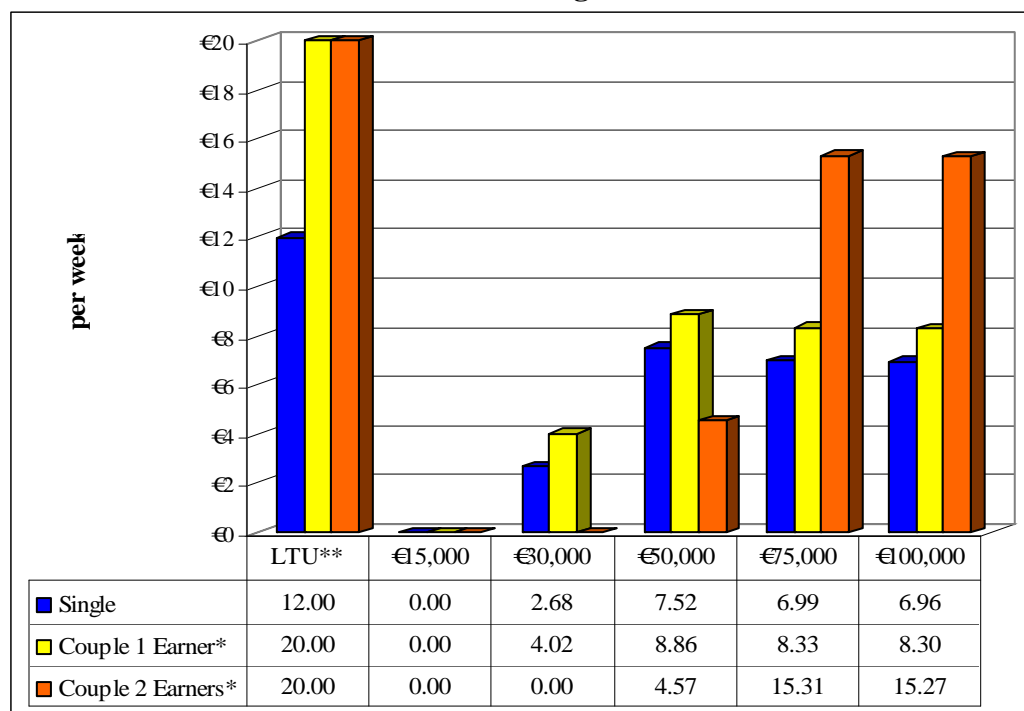
- **Integrate the tax and welfare systems.**
- **Make tax credits refundable.**
- **Continue to adjust tax credits so that the minimum wage remains out of the tax net.**
- **Convert the childcare supplement into a refundable tax credit payable for all children irrespective of the labour force status of their parents.**
- **Ensure that individualisation in the income tax system is done in a fair and equitable manner.**
- **Ensure that changes in the income-tax system benefit those on low to middle incomes as much as they benefit the better off in cash terms.**
- **Begin to monitor and report income tax levels in terms of effective tax rates.**
- **Poverty-proof all budget tax packages to ensure that tax changes do not further widen the gap between those with low income and the better off.**
- **Standard rate all discretionary tax expenditures.**
- **Increase the rate of capital gains tax from 20 to 25 per cent.**
- **Introduce a windfall tax on the profits generated from all land rezonings.**
- **Move to negotiate an EU wide agreement on minimum corporate taxation rates (a rate of 17.5% would seem fair in this situation).**
- **Put in place procedures within the Department of Finance and the Revenue Commissioners to monitor on an ongoing basis the cost and benefits of all current and new tax expenditures.**
- **Ensure that the distribution of all changes in indirect taxes discriminate positively in favour of those with lower incomes.**
- **Move decisively to shift the burden of taxation from income tax to eco-taxes on the consumption of fuel and fertilisers, as well as on the disposal of waste. In doing this, government should ensure that the impact of this on people with low incomes should not be negative.**

- **Introduce carbon and environmental taxes and investigate the Cap and Share approach.**
- **Develop policies which allow taxation on wealth to be increased.**
- **Investigate the possibility of introducing a tax on currency transactions such as the Tobin Tax.**
- **Investigate the possibility of introducing a site value tax. This, and the preceding proposal, could lead to substantial reductions in income tax.**
- **Adopt policies to simplify the taxation system.**

Appendix 6: Who Does Not Benefit from the Government's Annual Budget? Income Distribution and Budget 2008²⁹

For some time CORI Justice has monitored the income distribution impact of annual Budgets. In doing this analysis we first look exclusively at the effect on the distribution of income as a result of increases in social welfare and changes to the tax bands and credits. A more comprehensive analysis of these Budget changes which includes the effects of increases in wages/increments and other benefits is explored subsequently.

Chart A6.1: Income Distribution and Budget 2008



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

** LTU: Long Term Unemployed

When assessing how much better off people are going to be in 2008 it is important that wage increases and tax changes be included as well as social welfare increases. Unemployed people, for example, gain nothing from wage increases or tax reductions while those with jobs may gain from both. In our calculations we have included the

²⁹ This analysis was first published in our analysis and critique of the Budget, issued the day after the Budget was presented by the Minister for Finance CORI Justice (2007). It was subsequently expanded and published in CORI (2008) pp. 50-52.

general wage increase in various national agreements as well as the impact of Budget changes on social welfare and taxation. We have not included the impact of any benchmarking increases for public servants, as they do not apply to everyone.

Chart A6.1 reports the findings of our analysis and shows that a single person who is long term unemployed received a weekly gain of €12 (~~€26~~ a year). The other figures in chart 3.2 show single people on €30,000 a year were €4.22 a week better off while those on €50,000 became €34.46 a week better off. Couples who are long-term unemployed gained €20 a week while those on €30,000 a year were €25.56 a week better off. Couples who both work and earn a total of €30,000 a year got €27.36 extra each week following Budget 2008 compared to €41.69 for a similar couple on an annual income of €50,000.

Overall, Budget 2008 provided a welcome distributive bias towards welfare recipients. However, a major regret arising from Budget 2008 was its failure to address the aforementioned issue of the working poor. While CORI Justice welcomed the fact that Government adjusted tax credits to ensure that those on the minimum wage pay no tax, we are concerned at the lack of attention for low paid workers. As chart 7 shows, the Budget benefited those who are unemployed through increases in unemployment benefit and those who are working and paying taxes through alterations to tax credits and tax bands. However, for low paid workers and their families, they benefit from neither the tax changes (as their incomes are too low to pay any tax) nor welfare changes. A low income worker on €15,000 a year gained nothing from Budget 2008. Similarly, families with 1 earner on an income of €15,000 and those with two earners on an income of €30,000 gained nothing from the Budget. This was the second year that Budgetary changes overlooked this group. It implies that such workers, and their dependents, are falling behind the rest of society; a fact that is reflected in the *EU-SILC* poverty figures. The obvious inequity of this situation inspires CORI Justice's belief that tax credits should be made refundable.

CONTACT DETAILS

CORI Justice
Bloomfield Avenue
Dublin 4
Ireland

Tel: 01- 6677363

Fax: 01- 6689460

e-mail: justice@cori.ie

webpage: www.cori.ie/justice