



Submission to the Commission on Taxation and Welfare

January 2022



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1. Introduction

Social Justice Ireland welcomes the establishment of the Commission on Taxation and Welfare and in particular welcomes the broad remit of the Commission. The Commission's terms of reference reflect an understanding of the integrated nature of the taxation and welfare systems in the lives of individuals, families, companies and communities and the importance of Government policy being framed in this overall context. We note that this approach marks an important and welcome difference from the narrower terms of reference provided to previous Commissions and Reviews of the Taxation and Welfare system.

Social Justice Ireland has an established record of engaging on policy issues regarding the taxation system and the welfare system. These form central components of our annual Socio-Economic Review, *Social Justice Matters*, our annual pre-budget *Budget Choices* document and our annual post-budget *Budget: Analysis and Critique* publication. Frequently, these topics also frame our annual Social Policy Conference, and associated publication, and our regular engagements with Oireachtas Committees, Political Parties and national bodies such as NESC.

We welcome the opportunity to make a submission to the Commission on Taxation and Welfare. Our submission addresses the topics and issues raised in the Commission's *Your Vision, Our Future* document and is structured as follows. Section 2 provides an overview of *Social Justice Ireland's* overarching approach to building a fairer Ireland – this vision informs all our work and public policy engagements. Our views and recommendations on Taxation are outlined in Section 3 while those related to Redistribution and Welfare are presented in Section 4. In Section 5 we provide a list of recent *Social Justice Ireland* publications on topics relevant to the Commission's terms of reference.

We would welcome the opportunity to engage further with the Commission as it continues its work.

2. A Framework to Deliver a Fairer Ireland

This submission, like all of *Social Justice Ireland's* work, is informed by a vision of a fairer Ireland where human rights are respected, human dignity is protected, human development is facilitated, and the environment is respected and protected.

We believe that this vision reflects a society that most Irish citizens would aspire to living in. To achieve this vision, we have proposed a framework that identifies five key policy outcomes and sets out key areas for action within each (Table 2.1). It is through a simultaneous and coordinated pursuit and achievement of these five key policy outcomes that our vision of a fairer Ireland can be achieved.

Table 2.1 A Policy Framework for a Fairer Ireland

Vibrant economy	Decent services and infrastructure	Just taxation	Good governance	Sustainability
Deal with the Deficit	Increase Investment	Increase the overall Tax-Take	Open, transparent, accountable structures	Climate Justice
Financial Stability	Quality Services	Taxation Governance	Social Dialogue	Protect the Environment
Boost Public Investment	Minimum Social Floor	Broader Tax Base	Real Participation / Deliberative Democracy	Balanced Regional Development
Decent Jobs				Sustainable Progress Index
Reduce Inequality				

A more comprehensive explanation of this framework is provided as part of chapter two of our annual *Social Justice Matters* publication. These documents are available on our website.

3. Taxation¹

Social Justice Ireland's engagement on the topic of taxation reflects the aforementioned policy framework (section 2) and our Core Policy Objective for this area of public policy. That objective, which we state at the outset of any of our engagements on this issue, is:

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 experience of the last decade has highlighted the centrality of taxation in budget deliberations and to policy development at both macro and micro level. Taxation plays a key role in shaping Irish society through funding public services, supporting economic activity and redistributing resources to enhance the fairness of society – we welcome how the Commission's terms of reference reflect this.

This section of our submission addresses the issue of taxation in three parts. The first (section 3.1) examines key evidence relating to Ireland's present taxation position and outlines our expectations of the anticipated future taxation needs of the country. Subsequently section 3.2 considers the key policy reforms that we believe the Commission should consider and recommend including approaches to reforming and broadening the tax base and proposals for building a fairer tax system. The taxation section of our submission concludes (section 3.3) by summarising our key policy priorities in this area.

Overall, we believe that if the challenges and needed reforms we address in this section of our submission are to be effectively addressed, Ireland's key policy priorities in this area should be to:

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

3.1 Key Evidence

Assessing the Adequacy of Ireland's Total Tax-Take

The need for a wider tax base is a lesson painfully learned by Ireland during the last economic crisis. A disastrous combination of a naïve housing policy, a failed regulatory system, and foolish fiscal policy and economic planning caused a collapse in exchequer revenues. *Social Justice Ireland* believes that it is only through a strategic and determined effort to reform Ireland's taxation system that these mistakes can be avoided in the future. The narrowness of the Irish tax base resulted in almost 25 per cent of tax revenues disappearing, plunging the exchequer and the country into a series of fiscal policy crises. As shown in Table 3.1, CSO data show how tax revenues

¹ We will update some of the figures in this section, to reflect Budget 2022 and recent data, as part of our 2022 *Social Justice Matters* document. While these changes will be small, relative to the figures presented here, they will be available to the Commission once our document is published in April/May 2022.

collapsed from over €63bn in 2007 to a low of €47.4bn in 2010; it has since increased exceeding 2007 levels in 2016 and reaching just over €80bn in 2019. This recovery, while both significant and remarkable, has also been fuelled by short-term windfall revenue from a small number of multi-national companies.

Table 3.1: The Changing Nature of Ireland's Tax Revenue (€m)

	2007	2008	2010	2015	2019
Direct Taxes	26,087	22,964	19,569	27,863	36,627
Indirect Taxes	25,854	22,557	18,076	22,486	27,467
Capital Taxes	432	368	245	401	531
Social Contributions	10,723	11,010	9,511	12,322	15,847
Total Taxation	63,096	56,899	47,401	63,071	80,471
% GDP	32.0%	30.3%	28.3%	24.0%	22.6%
% GNP	37.3%	35.4%	34.0%	31.4%	29.3%
% GNI	37.0%	35.0%	33.7%	31.2%	29.2%
% GNI*	38.1%	36.3%	36.8%	38.8%	37.7%
% GNDI	37.6%	35.6%	34.4%	31.7%	29.6%

Source: CSO online database (GFA03 and N1703) and CSO Gov. Finance Statistics (2019).

Note: Total taxation expressed as a percentage of published CSO national income figures at current prices. GDNI is Gross National Disposable Income and represents the total income available to the nation for either consumption or saving.

Future taxation needs

Government decisions to raise or reduce overall taxation revenue needs to be linked to the demands on its resources. These demands depend on what Government is required to address or decides to pursue. The effects of the economic crisis a decade ago, and the way it was handled, also carry significant implications for our future taxation needs. The rapid increase in our national debt, driven by the need to borrow both to replace disappearing taxation revenues and to fund emergency 'investments' in the failing commercial banks, has increased the on-going annual costs associated with servicing the national debt. Similarly, the need for the state to rescue or support so many aspects of our economy and society during the Covid-19 pandemic has triggered large scale borrowing and future liabilities to both service and repay this debt.

Ireland's national debt increased from a level of 24 per cent of GDP in 2007 - low by international standards - to peak at 119.9 per cent of GDP in 2013. Documents from the Department of Finance, to accompany Budget 2021, indicate that debt levels fell to 57 per cent of GDP (€204 billion) in 2019 but will rise to at least 66.6 per cent of GDP (€240 billion) during 2021. The unpredictable nature of the pandemic, and the likely challenging recovery from it, suggest that the national debt may climb further in the immediate years ahead. The large revision in GDP for 2015 has had a significant effect on this debt indicator. Despite favourable lending rates and payback terms, there remains a recurring cost to service this debt – costs which have to be financed by current taxation revenues. The estimated debt servicing cost for 2021 is €4.5bn (Department of Finance, 2020a: 56).

These new future taxation needs are in addition to those that already exist for funding local government, repairing and modernising our water infrastructure, paying for the health and pension needs of an ageing population, paying EU contributions and funding any pollution reducing environmental initiatives that are required by European and International agreements.

Collectively, they mean that Ireland's overall level of taxation will have to rise significantly in the years to come – a reality Irish society and the political system need to begin to seriously address. We strongly encourage the Commission to take the opportunity to outline the reality of this policy challenge.

As an organisation that has highlighted the obvious implications of these long-term trends for some time, *Social Justice Ireland* welcomes the development over the past few years where the Government has published a section of the April *Stability Programme Update* (SPU) focused on the long-term sustainability of public finances.

Research by Bennett et al (2003), the OECD (2008) and the ESRI (2010) have all provided some insight into future exchequer demands associated with healthcare and pensions in Ireland in the decades to come. The Department of Finance has used the European Commission *2018 Ageing Report* as the basis for its assumptions from 2020-2070 which are summarised in table 3.2. Over the period the report anticipates an increase in the older population (65 years +) from approximately 712,000 people in 2020 to 1.2m in 2040 and to a peak of 1.49m in 2060. Over the same period, the proportion of those of working age will decline as a percentage of the population and the old-age dependency ratio will increase from almost five people of working age for every older person today to less than three for every older person from 2040 onwards (Department of Finance, 2020b: 52). While these increases imply a range of necessary policy initiatives in the decades to come, there is an inevitability that an overall higher level of taxation will have to be collected.

Table 4.2: Projected Age-Related Expenditure, 2020-2070

Expenditure areas	2020	2030	2040	2050	2060	2070
% GDP						
Gross Public Pensions	5.1	5.8	6.7	7.4	7.2	6.6
<i>of which:</i>						
<i>Social protection pensions</i>	3.8	4.3	5.2	6.1	6.3	6.0
<i>Public service pensions</i>	1.3	1.5	1.5	1.4	0.9	0.6
Health care	4.3	4.6	4.9	5.1	5.2	5.1
Long-term care	1.4	1.7	2.1	2.7	3.1	3.3
Education	3.5	3.6	3.2	3.4	3.5	3.3
Unemployment benefits	0.8	0.9	0.9	0.9	0.9	0.9
Total age-related spending	15.1	16.6	17.8	19.6	19.9	19.2
% GNI*						
Gross Public Pensions	8.0	9.1	10.5	11.7	11.3	10.3
<i>of which:</i>						
<i>Social protection pensions</i>	6.0	6.8	8.1	9.5	9.9	9.4
<i>Public service pensions</i>	2.0	2.3	2.4	2.2	1.5	1.0
Health care	6.6	7.2	7.7	8.0	8.2	8.2
Long-term care	2.2	2.7	3.4	4.0	4.7	5.1
Education	5.6	5.6	5.0	5.3	5.5	5.2
Unemployment benefits	1.2	1.4	1.4	1.4	1.4	1.4
Total age-related spending	23.6	26.0	28.0	30.4	31.2	30.3

Source: Department of Finance (2020b: 52).

How much should Ireland collect in taxation?

Social Justice Ireland believes that, over the period ahead, Ireland's fiscal policy should include a core focus on increasing Ireland's overall tax-take. Previous benchmarks, identifying

approximately how much should be collected, were set relative to the overall proportion of national income collected in taxation, but have become redundant following recent revisions to Ireland's GDP and GNP levels as a result of the tax-minimising operations of a small number of large multinational firms.² Consequently, an alternative benchmark is required and *Social Justice Ireland* developed its policy position on this benchmark in 2018.

We have proposed a new tax take target set on a per-capita basis; an approach which minimises some of the distortionary effects that have emerged in recent years. Our target is calculated using CSO population data, ESRI population projections, and CSO and Department of Finance data on recent and future nominal overall taxation levels. The target is as follows:

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

Table 3.3 compares our target to the Budget 2021 expectations of the Department of Finance. We also calculate the overall tax gap for the economy; the difference between the level of taxation that is proposed to be collected and that which would be collected if the *Social Justice Ireland* target was achieved. As part of our calculations, we have adjusted the expected Department of Finance tax take to remove an estimate of the windfall short-term corporate taxes the state is currently receiving; revenues which are likely to go elsewhere as the broader OECD and EU reforms of corporate taxation regimes advances. We have chosen a conservative figure of €4.5 billion to make this adjustment – following the ongoing increase in the scale of these ever-growing windfall gains, we will be revising up this figure in our 2022 revisions.

In 2021 the overall tax gap was €5.4 billion and the average gap over the period 2019-2021 was €6 billion per annum.

Table 3.3: Ireland's Tax Gap, 2019-2021

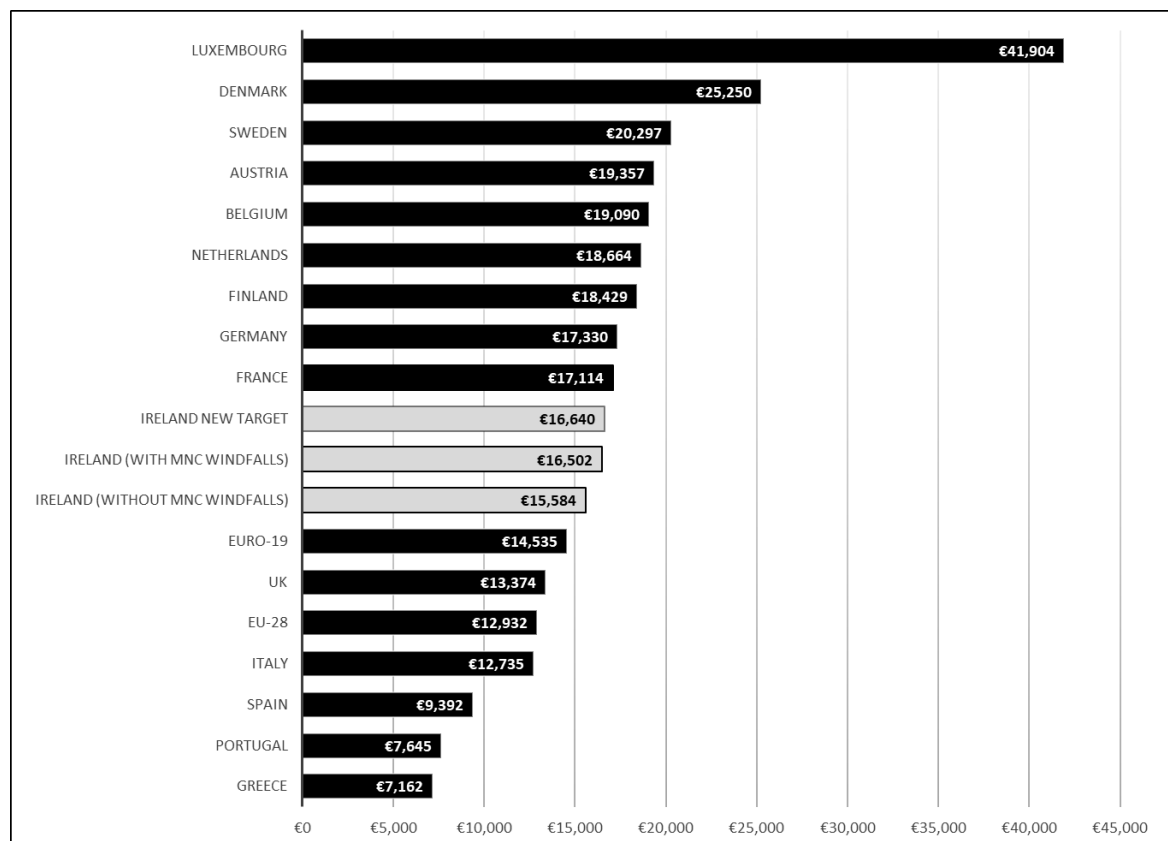
	2019	2020	2021
Tax-take € per capita			
Budget 2021 projection	€15,580	€14,683	€15,333
<i>Social Justice Ireland</i> target	€16,642	€16,160	€16,418
Difference	€1,062	€1,477	€1,085
Overall Tax-take €m			
Budget 2021 projection [#]	€76,679m	€73,083m	€76,931m
<i>Social Justice Ireland</i> target	€81,905m	€80,433m	€82,374m
Tax Gap	€5,225m	€7,349m	€5,443m

Notes: Calculated from Department of Finance (2020a: 58), CSO population data and ESRI population projections (Morgenroth, 2018:48). GNI* is assumed to move in line with GNP – as per Department of Finance (2017:49). The Tax Gap is calculated as the difference between the Department of Finance projected tax take and that which would be collected if total tax receipts were equal to the *Social Justice Ireland* target. # The tax take has been adjusted to remove €4.5b as a conservative estimate of short-term tax revenues from MNCs; targets are calculated post its removal.

² For many years *Social Justice Ireland* proposed that the overall level of taxation should reach 34.9 per cent of GDP.

Increasing the overall tax take to this level would require a number of changes to the tax base and the current structure of the Irish taxation system, reforms which we address in the next section of our submission. Increasing the overall taxation revenue to meet this new target would represent a small overall increase in taxation levels and one which we believe is unlikely to have any significant negative impact on the economy. However, it would require careful management, particularly as the windfall revenues from multi-national firms recede.

Chart 3.1: Per-Capita Tax Take in EU-15 States, 2019



Source: Calculated from Eurostat online database and see notes to Table 3.3.

Chart 3.1 compares our proposed overall taxation target to the situation in other comparable high-income EU states (the EU-15) using Eurostat data which is for 2019. The updated *Social Justice Ireland* tax target for 2019 is €16,640 per capita. In that year Ireland’s per capita tax figure was €16,502 when the tax windfalls of multi-national corporations (MNCs) are included but about €1,000 below the target when these transitory revenue sources are excluded.

The *Social Justice Ireland* tax target does not alter Ireland’s relative position or alter its status as among the lowest taxed economies in Europe. However, reaching that level would provide a lot more recurring revenue for the state to invest in public services and improved living standards for all. As a policy objective, Ireland can remain a low-tax economy, but it should not be incapable of adequately supporting the economic, social and infrastructural requirements necessary to support our society and complete our convergence with the rest of Europe.

Is a higher tax-take problematic?

Suggesting that any country's tax-take should increase often produces negative responses. People think first of their incomes and increases in income tax, rather than more broadly of reforms to the tax base. Furthermore, proposals that taxation should increase are often rejected with suggestions that they would undermine economic growth. However, a review of the performance of a number of economies over recent years sheds a different light on this issue and shows limited or no relationship between overall taxation levels and economic growth.

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.

Table 3.4: Differences in Taxation Levels Between the World's 15 Most Competitive Economies and Ireland

Competitiveness Rank	Country	Taxation level versus Ireland
1	Singapore	<i>not available</i>
2	United States	-5.1
3	Hong Kong SAR	<i>not available</i>
4	Netherlands	+9.7
5	Switzerland	-1.1
6	Japan	+2.4
7	Germany	+9.2
8	Sweden	+13.3
9	UK	+3.4
10	Denmark	+16.7
11	Finland	+12.6
12	Taiwan, China	<i>not available</i>
13	South Korea	<i>not available</i>
14	Canada	+3.9
15	France	+15.8
24	IRELAND	-

Source: World Economic Forum (2019).

Notes: a) Taxation data from OECD (2020) for the year 2019 except for Japan where the taxation data is for 2018.
 b) For some non-OECD countries comparable data is *not available*.
 c) The OECD's estimate for Ireland in 2019 is 22.7 per cent of GDP. The table compares GDP taxation measures for these countries with Ireland's figure for tax as a percentage of GNDI 29.6 per cent (see Table 3.1).

The World Economic Forum publishes a *Global Competitiveness Report* ranking the most competitive economies across the world.³ Table 3.4 outlines the top fifteen economies in this

³ Competitiveness is measured across 12 pillars including: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods markets efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation. See WEF (2019) for further details on how these are measured.

index for 2019 as well as the ranking for Ireland (which comes 24th). It also presents the difference between the size of the tax-take in these, the most competitive economies in the world, and Ireland, for 2019.⁴

Only two of the top fifteen countries, for which there is data available, report a lower taxation level than Ireland. Compared to Ireland almost all other leading competitive economies collect a notably greater proportion of national income in taxation. Over time Ireland's position on this index has varied, most recently rising from 31st to 24th, although in previous years Ireland had been in 22nd and 23rd position. When Ireland has slipped back the reasons stated for Ireland's loss of competitiveness included decreases in economic growth and fiscal stability, poor performances by public institutions and a decline in the technological competitiveness of the economy (WEF, 2003: xv; 2008:193; 2011: 25-26; 210-211). Interestingly, a major factor in that decline is related to underinvestment in state funded areas: education; research; infrastructure; and broadband connectivity. Each of these areas is dependent on taxation revenue and they have been highlighted by the report, and by domestic bodies such as the National Competitiveness and Productivity Council, as necessary areas of investment to achieve enhanced competitiveness. As such, lower taxes do not feature as a significant priority; rather the focus is on increased and targeted efficient government spending.

Effective Income Taxation Rates

To complement these data and trends, it is also useful to assess changes to the levels of income taxation in Ireland over most of the last two decades; we are conscious that this issue will receive a lot of attention from the Commission given its terms of reference.

Central to any understanding of these personal/income taxation trends are effective tax rates. 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 a total of €10,000 in tax, PRSI and USC 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 scale of income taxation faced by earners.

Following Budget 2022 we have calculated effective tax rates for a single person, a single income couple and a couple where both are earners. Table 3.5 presents the results of this analysis. For comparative purposes, it also presents the effective tax rates which existed for people with the same income levels in 2002 and 2012.

In 2022, for a single person with an income of €15,000 the effective income tax rate will be 0.8 per cent, rising to 12.0 per cent on an income of €25,000 and 40.4 per cent on an income of €120,000. A single income couple pay 0.8% at an income of €15,000. This increases to 5.6 per cent at an income of €25,000, 20.9 per cent at an income of €60,000, and 36.1 per cent at an income of €120,000. In the case of a couple who are both earning and with a combined income of €40,000, their effective income taxation rate in 2022 is 7.0 per cent, rising to 29.6 per cent for combined earnings of €120,000.

⁴This analysis updates that first produced by Collins (2004: 15-18). As a result of the Covid-19 pandemic, the WEF did not update their index for 2020.

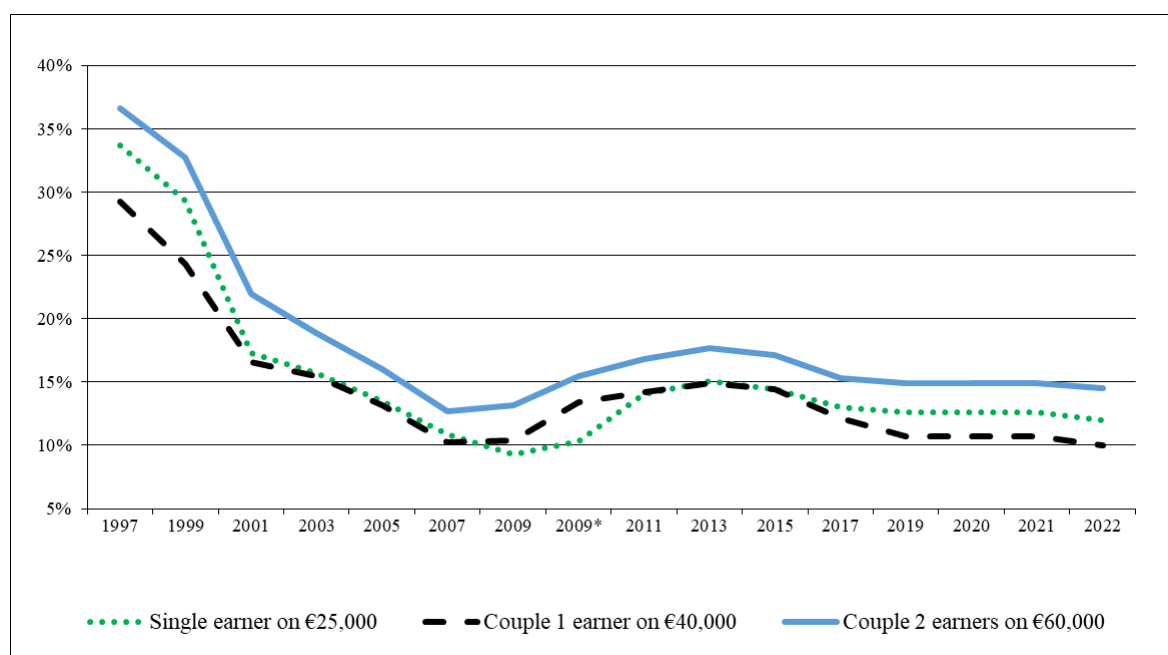
Table 3.5 Effective Tax Rates following Budgets 2002 / 2012 / 2022

Income Levels	Single Person	Couple 1 earner	Couple 2 Earners
€15,000	7.7% / 2.7% / 0.8%	2.2% / 2.7% / 0.8%	0.0% / 2.0% / 0.0%
€20,000	13.8% / 9.8% / 6.4%	4.7% / 6.3% / 3.4%	0.0% / 2.3% / 0.0%
€25,000	16.2% / 14.0% / 12.0%	7.1% / 7.2% / 5.6%	4.1% / 2.5% / 0.6%
€30,000	19.3% / 16.8% / 14.8%	10.2% / 8.6% / 6.1%	8.5% / 4.7% / 1.9%
€40,000	26.4% / 24.2% / 19.8%	15.7% / 14.2% / 10.0%	12.3% / 9.2% / 7.0%
€60,000	32.4% / 33.4% / 29.4%	25.3% / 26.2% / 20.9%	19.3% / 16.8% / 14.5%
€100,000	37.1% / 40.9% / 38.1%	32.8% / 36.5% / 33.0%	29.9% / 29.7% / 25.6%
€120,000	38.3% / 42.7% / 40.4%	34.7% / 39.1% / 36.1%	32.4% / 33.4% / 29.6%

Source: Social Justice Ireland (2021:6).

Notes: Data calculated as the total of income tax, levies/USC and PRSI as a % of total income. Couples assume 65%/35% income division. All workers are assumed to be PAYE earners

Chart 3.2: Effective Income Taxation rates in Ireland, 1997-2022



Source: Department of Finance (2021) and Social Justice Ireland (2021:6).

Notes: See notes to Table 3.5. 2009*= Supplementary Budget 2009 (April 2009)

While these rates increased in 2008/09 for almost all earners they have since reduced are still low compared to those that prevailed in 2002. Few people complained at that time about income tax levels being excessive and the recent increases should be seen in this context. Taking a longer view, chart 3.2 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 one earner on €40,000;

and a couple with two 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.

The two 2009 Budgets produced notable increases in these effective taxation rates. Both Budgets required government to raise additional revenue and with some urgency - increases in income taxes providing the easiest option. Similarly, the introduction of the USC in Budget 2011 increased these rates, most notably for lower income earners. The subsequent Budget 2012 provided a welcome reduction for the lowest earners through raising the income level at which the USC applies. Despite that change, the employee PRSI increase in Budget 2013 targeted lowest income earners hardest and increased effective taxation rate for almost all workers. Budget 2015 further raised the USC entry point and Budget's 2016-2019 decreased most USC rates, having the effect of further decreasing the effective income tax rates faced by all taxpayers.

Income taxation and the income distribution

A further insight into the distribution of income taxpayers across the income distribution is provided each year by the Revenue Commissioners. The Revenue's ability to profile taxpayers is limited by the fact that it generally examines 'tax cases', or taxpayer units, which may represent either individual taxpayers or couples who are jointly assessed for tax. Table 3.3 analyses data from the post-Budget 2021 projection by Revenue of the structure on income and income taxes in Ireland during 2021.

Table 3.6: Income Taxation and Ireland's Earnings Distribution, 2021

From €	To €	No. of cases	Av. income	Av. Tax & USC	Effective Tax Rate
-	10,000	480,932	€4,514	€0.83	0.0%
10,000	13,000	136,602	€11,508	€5	0.0%
13,000	15,000	96,820	€14,005	€101	0.7%
15,000	18,000	141,383	€16,501	€191	1.2%
18,000	20,000	98,120	€18,997	€530	2.8%
20,000	25,000	238,652	€22,485	€1,119	5.0%
25,000	27,000	94,840	€26,012	€1,655	6.4%
27,000	30,000	123,314	€28,561	€2,076	7.3%
30,000	35,000	205,565	€32,442	€2,802	8.6%
35,000	40,000	186,687	€37,378	€3,932	10.5%
40,000	50,000	259,494	€44,756	€6,066	13.6%
50,000	60,000	183,802	€54,695	€9,080	16.6%
60,000	70,000	128,375	€64,693	€12,090	18.7%
70,000	75,000	50,739	€72,370	€14,269	19.7%
75,000	80,000	44,539	€77,438	€16,188	20.9%
80,000	90,000	68,578	€84,750	€18,971	22.4%
90,000	100,000	49,909	€94,793	€23,062	24.3%
100,000	150,000	113,659	€119,366	€33,803	28.3%
150,000	200,000	32,925	€170,569	€57,616	33.8%
200,000	275,000	17,044	€231,108	€86,658	37.5%
Over	275,000	16,993	€540,046	€232,037	43.0%
Totals		2,768,972	€41,255	€7,920	19.2%

Source: Calculated from Revenue Commissioners (2020) based on projections for the 2021 income tax structure.

The progressivity of the Irish income taxation system is well demonstrated in Table 3.6 – as incomes increase the average income tax paid also increases. The table also underscores the issues *Social Justice Ireland* frequently highlights; that a large proportion of the Irish population survive on low incomes. Summarising the data in the table, 17.4 per cent of cases have an income below €10,000; just over half have an income below €30,000 and 87 per cent of cases are below €75,000. At the top of the income distribution, 6.5 per cent of tax cases (just over 180,000) receive an income in excess of €100,000. The data also highlights the dependence of the income taxation system on higher income earners, with almost one-quarter of income tax coming from cases with incomes of between €60,000 and €100,000 and 51 per cent of income tax coming from cases with incomes above €100,000. While such a structure is not unexpected, a symptom of progressivity rather than a structural problem, it does underscore the need to broaden the tax base beyond income taxes – a point we have made for some time and develop as part of our submission below.

3.2 Reforming and broadening the tax base

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

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

- Tax Expenditures / Tax Reliefs
- Minimum Effective Tax Rates for Higher Earners
- Corporation Taxes
- Site Value Tax
- Second Homes
- Empty Houses and Underdeveloped Land
- Taxing Windfall Gains
- Financial Transactions Tax
- Carbon Taxes

Tax Expenditures / Tax Reliefs

A significant outcome from the 2008-2009 Commission on Taxation is contained in part eight of its Report which details all the tax breaks (or “tax expenditures” as they are referred to officially). Subsequently, two members of the Commission produced a detailed report for the Trinity College Policy Institute which offered further insight into this issue (Collins and Walsh, 2010). Since then, the annual reporting of the costs of tax expenditures has improved considerably with much more detail than in the past being published annually by the Revenue Commissioners and an annual reports included as part of the Budget.

An examination of the comprehensive tax expenditure data published by the Revenue Commissioners for the tax year 2018 is informative. Within the list there are approximately 85 discretionary tax breaks involving revenue forgone of €15.8 billion per annum; these are tax relieving measures that could be phased out, restructured, or delivered more appropriately as direct expenditure.

Some progress has been made in addressing and reforming these tax breaks since 2009, and we welcome this progress. However, despite this, recent Budgets and Finance Bills have introduced new tax breaks targeted at high earning multinational executives and research and development schemes, and extended tax breaks for film production and the refurbishment of older buildings in urban areas. For the most part, there has been no, or limited, accompanying documentation evaluating the cost, distributive impacts or appropriateness of these proposals.

The Commission on Taxation (2009:230), Collins and Walsh (2010:20-21) and most recently a report for the Oireachtas Budgetary Oversight Committee (2019) have highlighted and detailed the need for new methods for evaluation/introducing tax reliefs. We strongly welcomed these proposals, which were similar to those made by the directors of *Social Justice Ireland* to the 2008/09 Commission in written and oral submissions. The proposals focused on prior evaluation of the costs and benefits of any proposed expenditure, the need to collect detailed information on each expenditure, the introduction of time limits for expenditures, the creation of an annual tax expenditures report as part of the Budget process and the regular scrutiny of this area by an Oireachtas committee. Recently there has been some progress in this direction with a report for the Department of Finance, accompanying Budget 2015, proposing a new process for considering and evaluating tax breaks. Documentation accompanying Budgets 2016-2022 also included an annual tax expenditure report. We welcome this development and believe it is important to further develop this work, to deepen the proposed analysis and to further improve the ability of the Oireachtas to regularly review all of the tax expenditures in the Irish taxation system.

Social Justice Ireland believes that reforming the tax expenditure system would make the tax system fairer. It would also provide substantial additional resources which would contribute to raising the overall tax-take towards the modest and realistic target we outlined earlier. We encourage the Commission to make recommendations to this effect.

Minimum Effective Tax Rates for Higher Earners

The suggestion that it is the better-off who principally gain from the provision of tax exemption schemes is reflected in a series of reports published by the Revenue Commissioners entitled *Effective Tax Rates for High Earning Individuals* and *Analysis of High Income Individuals' Restriction*. These reports provided details of the Revenue's assessment of top earners in Ireland and the rates of effective taxation they incur.⁵ The reports led to the introduction of a minimum 20 per cent effective tax rate as part of the 2006 and 2007 Finance Acts for all those with incomes in excess of €500,000. Subsequently, Budgets have revised up the minimum effective rate and revised down the income threshold from where it applies – reforms we have welcomed as necessary and long-overdue. Most recently, the 2010 Finance Bill introduced a requirement that all earners above €400,000 pay a minimum effective rate of tax of 30 per cent. It also reduced from €250,000 to €125,000 the income threshold where restrictions on the use of tax

⁵The effective taxation rate is calculated as the percentage of the individual's total pre-tax income that is liable to income tax and that is paid in taxation.

expenditures to decrease income tax liabilities commence.

We use the 2020 Revenue Commissioners analysis of the operation of these new rules below, which is for the tax year 2018 (Revenue Commissioners, 2020). Table 3.7 gives the findings of that analysis for the 97 individuals with income in excess of €400,000 who were subject to the restriction. The report also includes information on the distribution of effective income tax rates among the 261 earners subject to the restriction and with incomes between €125,000 and €400,000.

Table 3.7: The Distribution of Effective Income Tax Rates Among Those Earning in Excess of €125,000 in 2018 (% of total)

Effective Tax Rate	Individuals with incomes of €400,000+	Individuals with incomes of €125,000 - €400,000
< 15%		15
15% < 20%		23
20% < 25%		42
25% < 30%	<10*	60
30% < 35%	0	58
35% < 40%	43	51
40% < 45%	44	12**
45% < 50%	<10	
> 50%	0	
Total Cases	97	261

Source: Revenue Commissioners (2020: 8, 10).

Note: Effective rates are for income taxation and USC only. They do not include PRSI. *these earners are classified as having a rate of 'less than or equal to 30 per cent'. ** these 12 earners are classified as having a rate of 'above 40 per cent'.

Social Justice Ireland welcomed the introduction of this scheme which marked a major improvement in the fairness of the tax system. The published data indicate that it seems to be working well; however, there are still surprisingly low effective income taxation rates being reported.

The report states that the average effective tax rate faced by earners above €400,000 in 2018 was 40.3 per cent, equivalent to the amount of income tax and USC paid by a single PAYE worker with a gross income of €172,000 in that year. Similarly, the average income tax and USC effective tax rate faced by people earning between €125,000 - €400,000 in 2018 (29 per cent) was equivalent to the amount of income tax paid by a single PAYE worker with a gross income of approximately €70,000 in that year. The contrast in these income levels for the same overall rate of income taxation brings into question the fairness of the taxation system as a whole. Such an outcome may be better than in the past, but it still has some way to go to reflect a situation where a fair contribution is being paid.

Social Justice Ireland believes that it is important that Government continues to raise the minimum effective tax rate so that it is in line with that faced by PAYE earners on equivalent high-income levels. Following Budget 2021 a single individual on an income of €125,000 gross will pay an income tax and USC effective tax rate of 37.2 per cent (down from 39.3 per cent in 2014); a figure which suggests that the minimum threshold for high earners has potential to adjust upwards over the next few years. We also believe that Government should reform the High-

Income Individuals' Restriction so that all tax expenditures are included within it. The restriction currently does not apply to all tax breaks individuals avail of, including pension contributions. We encourage the Commission to make recommendations to this effect.

Corporation Taxes

Over the past few years there has been a growing international focus on the way multi-national corporations (MNCs) manage their tax affairs. The OECD's Base Erosion and Profits Shifting (BEPS) examination has established the manner and methods by which MNCs exploit international tax structures to minimise the tax they pay.⁶ Similarly, the European Commission has undertaken a series of investigations into the tax management and tax minimisation practices of a number of large MNCs operating within the EU, including Ireland. The European Parliament's Special Committee on Tax Rulings has also completed a review of the EU tax system and highlighted its problems and failures (TAXE, 2015).⁷

Given the timeliness and comprehensiveness of this work, it is important that it leads to the emergence of a transparent international corporate finance and corporate taxation system where multinational firms pay a reasonable and credible effective corporate tax rate. We welcome progress towards this over the past year, and the acceptance by the Irish Government that the system needs to change albeit that this will result in lower corporate tax revenues to the exchequer in the years to come.

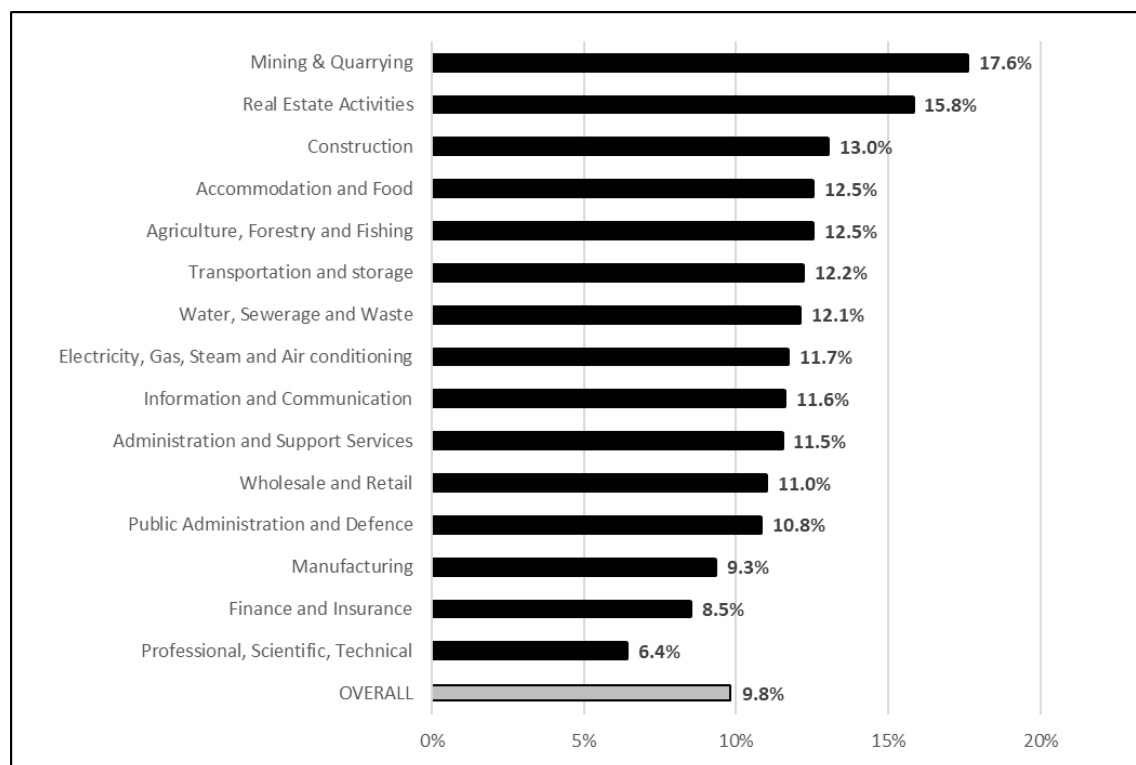
A chapter within the 2016 Report of the Comptroller and Auditor General (C&AG, September 2017) provided a new and important insight into corporation tax receipts in Ireland. The report is the first comprehensive examination of this area for some time, even though corporation taxes comprise around 15 per cent of annual tax revenue; a figure that continues to grow. Looking at tax receipts for 2016 it found that there were 44,000 corporate taxpayers but that receipts were dominated by "a small number of taxpayers, mainly multi-national enterprises (MNEs)" (2017:289). Noting the fiscal risk associated with this, the report indicated that 37 per cent of the 2016 corporation tax was paid by the top 10 taxpayers and 70 per cent by the top 100 taxpaying companies. Four sectors accounted for 84 per cent of the €7.35 billion in revenue collected in 2016 and these were: financial and insurance activities (28%); manufacturing including pharmaceutical manufacturing (25%); information and communications (17%); and wholesale and retail trade (14%). The report noted that the three largest of these are sectors "dominated by MNEs" (2017:291).

Despite a low headline rate (12.5%), to date there has been limited data on the effective rate of corporate taxation in Ireland. A report from the Department of Finance in 2014 explored the issue and the C&AG (2017) provides a more detailed assessment. Using the approach used by the Revenue Commissioners to calculate the effective tax rate, tax due as a proportion of taxable income, they found an overall effective corporation tax rate of 9.8 per cent in 2016. The effective rate varied between sectors and the C&AG findings are summarised in chart 3.3. The C&AG findings for the effective rate among the top 100 corporate taxpayers, who account for 70 per cent of tax revenue, is summarised in Table 3.8.

Chart 3.3: Effective Corporation Tax Rates by Sector in Ireland, 2016

⁶ See www.oecd.org/ctp/beps.htm

⁷ See www.europarl.europa.eu/committees/en/taxe/home.html



Source: C&AG (2017: 296)

Note: Effective tax rates can exceed the statutory rate of 12.5% where there is income beyond trading profits such as passive income which is charged at 25%.

Table 3.8: Effective Corporate Tax Rates of the Top 100 Taxpayers, 2016

Effective Rate	Number of Companies
0% or less	8
Between 0% and 1%	5
Between 1% and 5%	1
Between 5% and 10%	7
Between 10% and 12%	14
More than 12%	65
Total	100

Source: C&AG (2017: 299)

Overall the C&AG report points towards a concentration of corporation tax among a small group of multi-national firms and highlights that it is a small number of these firms who are aggressively minimising their tax liabilities.

Social Justice Ireland believes that an EU-wide agreement on a minimum effective rate of corporation tax should be negotiated and this could evolve from the ongoing discussions around a Common Consolidated Corporate Tax Base (CCCTB). We believe that the minimum rate should be set well below the 2020 EU-27 average headline rate of 21.5 per cent but above the existing low Irish level.⁸ A headline rate of 17.5 per cent and a minimum effective rate of 10 per cent seem appropriate. This reform would simultaneously maintain Ireland's low corporate tax position and

⁸ Data from Eurostat (2020: 41).

provide additional revenues to the exchequer. Based on the C&AG report the impact of such a reform would be confined to a small number of firms yet it is likely to raise overall corporate tax revenues. Rather than introducing this change overnight, agreement may need to be reached at EU level to phase it in over three to five years. Reflecting this, we proposed prior to Budget 2022 that the effective rate be adjusted to a minimum of 6 per cent – an opportunity regrettably missed.

Social Justice Ireland believes that the issue of corporate tax contributions is principally one of fairness. Profitable firms with substantial income should make a contribution to society rather than pursue various schemes and methods to avoid such contributions.

Site Value Tax

Taxes on wealth are minimal in Ireland. Revenue is negligible from capital acquisitions tax (CAT) because it has a very high threshold in respect of bequests and gifts within families and the rates of tax on transfers of family farms and firms are very generous. Some recent Budgets have extended the Group A (parent to child) CAT threshold and the likely future revenue from this area remains limited given the taxes current structure.⁹ The requirement, as part of the EU/IMF/ECB bailout agreement, to introduce a recurring property tax led Government in Budget 2012 to introduce an unfairly structured flat €100 per annum household charge as subsequently a value-based Local Property Tax in Budget 2013. While we welcome the overdue need to extend the tax base to include a recurring revenue source from property, we believe that a Site Value Tax, also known as a Land Rent Tax, would be a more appropriate and fairer approach.

The issue of site value taxation is one that has received recurring attention over the past two decades. Two papers at a 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 published a report entitled *Local Authority Funding – Government in Denial* (2004) which called for an annual site tax. Subsequently, Collins and Larragy (2011) outlined how such a charge would work and operate using the Property Registration Authority of Ireland's (PRAI) database as the basis for operation of the tax.

A 'land value', 'land rent' or 'site-value' tax (all three names are used to describe the same concept) 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 often results in land owners retaining unused sites in the hope of selling them later when land values will have risen. Speculation on rising land values distorts land prices, generally making them significantly higher than they would be

⁹ Budget 2017 previously extended the Group B and C thresholds further reducing the revenue yield of this tax source.

otherwise. NES (2003:96) points out that given the immobility of land the introduction of a tax on development land would have minimal economic effects.

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 because it is dependent on maintaining and increasing the scale of the transactions, and switch 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 are 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. In addition, 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, therefore, that a substantial portion of the benefits of the increasing site value should go to the whole community through the taxation system. After all, the site owner may well have made little or no contribution to the investment that produced the increased value in the first place.

Social Justice Ireland believes that the introduction of a site value tax would be a better alternative than the current Government value based local property tax. A site value tax would lead to more efficient land use within the structure of social, environmental and economic goals embodied in planning and other legislation. We welcome that the Commission has been asked to review this proposal and look forward to engaging on the detail of its recommendations.

Second Homes, Empty Houses and Underdeveloped Land

A feature of the housing boom of the early 2000s was the rapid increase in ownership of holiday homes and second homes. For the most part these homes remain empty for at least nine months of the year. It is a paradox that many were built at the same time as the rapid increases in housing waiting lists.

Results from Census 2016 identified that the number of vacant houses on Census night was 259,562 (April 2016) implying that 12.8 per cent of the national housing stock was vacant. 61,204 of these units were classified as holiday homes meaning that almost 200,000 were empty homes that could act as the main accommodation for an individual or family. Given that there is always some 'natural' turnover in the housing market, the true 'empty' figure is somewhat lower but still very significant.

What is often overlooked when the second home issue is being discussed is that the infrastructure to support these houses is substantially subsidised by the taxpayer. Roads, water, sewage and electricity infrastructure are just part of this subsidy which goes, by definition, to those who are already better off as they can afford these second homes in the first place. *Social Justice Ireland* supports the views of Bergin et al (ESRI, 2003) and the Indecon report (2005:183-186; 189-190) on this issue. We believe that people purchasing second houses should have to pay these full

infrastructural costs, much of which is currently borne by society through the Exchequer and local authorities. There is something perverse in the fact that the taxpayer subsidises the owners of these unoccupied houses while many people do not have basic adequate accommodation.

The introduction of the Non-Principal Private Residence (NPPR) charge in 2009 was a welcome step forward. However, notwithstanding subsequent increases, the charge was very low relative to the previous and on-going benefits that are derived from these properties. It stood at €200 in 2013 and was abolished under the 2014 Local Government Reform Act. While second homes are liable for the local property tax, as are all homes, *Social Justice Ireland* believes that second homes should be required to make a further annual contribution in respect of the additional benefits these investment properties receive. We believe that Government should re-introduce this charge and that it should be further increased and retained as a separate substantial second homes payment. An annual charge of €500 would seem reasonable and would provide additional revenue to local government of approximately €170m per annum.

In the context of an ongoing shortage of housing stock, building new units is not the entire solution. There remains a large number of empty units across the country, something reflected in the aforementioned 2016 Census data. *Social Justice Ireland* believes that policy should be designed to reduce the number of these units and penalise those who own units and leave them vacant for more than a six-month period. We propose that Government should introduce a levy on empty houses of €200 per month with the revenue from this charge collected and retained by local authorities.

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

All of these reforms would represent a feasible and equitable broadening of the tax base and we recommend that the Commission endorses them.

Taxing Windfall Gains

The vast profits made by property speculators on the rezoning of land by local authorities was a particularly undesirable feature of Ireland's boom-bust land price cycle. For some time, *Social Justice Ireland* has called for a substantial tax to be imposed on the profits earned from such decisions. Re-zonings are made by elected representatives supposedly in the interest of society generally. It therefore seems appropriate that a sizeable proportion of the windfall gains they generate should be made available to local authorities and used to address the ongoing housing problems they face. In this regard, *Social Justice Ireland* welcomed the decision to put such a tax in place in 2010, following Recommendations from the 2008.09 Commission on Taxation, and strongly condemned its removal as part of Budget 2015. Its removal has been one of the most retrograde policy initiatives in recent years.

A windfall tax level of 80 per cent is appropriate and, as Table 3.9 illustrates, this still leaves speculators and land owners with substantial profits from these rezoning decisions. The profit from this process should be used to fund local authorities. In announcing his Budget 2016 decision, the Minister for Finance noted that the tax was not currently raising any revenue and so

justified its abolition on this basis. However, as the property market has recovered and as the population continues to grow in years to come, there will be many beneficiaries of vast unearned speculative windfalls.

Social Justice Ireland believes that this tax should be re-introduced. Taxes are not just about revenue, they are also about fairness.

Table 3.9: Illustrative Examples of the Operation of an 80% Windfall Gain Tax on Rezoned Land

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

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

Financial Transactions Tax

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

Occasional insights are provided by surveys, the most comprehensive of which is provided by the Bank for International Settlements (BIS) *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity*. The most recent of these was conducted in April 2019 and published in late 2019. The data covered 53 countries and the activities of almost 1,300 banks and other dealers.

Relating to foreign exchange transactions, the key findings from the report were:

- In April 2019 the average daily turnover in global foreign exchange markets was US\$6.6 trillion; an increase from \$5.1 trillion three years earlier.
- The major components of these activities were: \$1,987bn in spot transactions each day, \$999bn in outright forwards, \$3,202bn in foreign exchange swaps, \$108bn in currency swaps, and \$294bn in foreign exchange options and other products.
- 56 per cent of trades were cross-border and 44 per cent local (within countries).
- The vast majority of trades involved four currencies on one side of trades: US Dollar (88 per cent of all foreign exchange trades), Euro (32 per cent), Japanese Yen (17 per cent) and Pound Sterling (13 per cent).
- Most of this activity occurred in five countries with the UK, USA, Hong Kong, Singapore and Japan facilitating 79 per cent of all foreign exchange trades.

Relating to interest rate derivative transactions, the key findings from the report were:

- In April 2019 the average daily turnover in global interest rate derivative markets was US\$5.8 trillion; this has increased by more almost 120 per cent since 2016.
- The major components of these activities were: interest rate swaps of \$4,100bn, \$1,900bn in forward rate agreements, and \$456bn in Over the Counter (OTC) options and other products.
- Half of transactions were conducted in US\$, one-quarter in Euro and 8 per cent in Sterling. Most transactions originated in the UK (50 per cent) and USA (32 per cent).

The Irish Central Bank (2019) contributed to the BIS report providing specific data for the activities of 14 reporting banks based in Ireland. They found that in April 2019:

- The estimated daily foreign exchange turnover for Ireland was US\$7.2bn up from \$2.2bn in 2016 (3.3 times higher).
- The estimated daily turnover in interest rate derivative markets in Ireland was US\$7.3bn up from US\$1.1bn (6.8 times higher).
- The importance of Ireland in both these sectors increased between 2016 and 2019. In global terms, Ireland ranks 36th in terms of foreign-exchange contracts and 21st in terms of interest-rate derivatives.

Transactions in these markets represent a mixture of legitimate, speculative and opportunistic financial transactions. Estimates continue to highlight that a very large proportion of these activities are speculative, implying that large and growing amounts of these transactions make no real or worthwhile contribution to economies and societies beyond increasing risk and instability. Taken together, the daily value of international trading in foreign exchange and interest rate derivatives markets is more than 31 times the annual GDP of Ireland, more than four times that of the UK, and almost 60 per cent of annual GDP in the USA. On an annualised basis, Irish based trading in foreign exchange markets is equivalent to 676 per cent of GDP while trading in interest rate derivatives are equivalent to 685 per cent of the annual value of GDP.

Social Justice Ireland regrets that to date Government has not committed to supporting recent European moves to introduce a Financial Transactions Tax (FTT) or Tobin Tax. The Tobin tax, first proposed by the Nobel Prize winner James Tobin, is a progressive tax, designed to target only those profiting from speculation. It is levied at a very small rate on all transactions but given the scale of these transactions globally, it has the ability to raise significant funds. In September 2011 the EU Commission proposed an FTT and its proposal has evolved since then through a series of revisions and updates.

The EU initially proposed a tax rate of 0.1% (one tenth of one percent) on the trading of bonds and shares and 0.01% (one hundredth of one percent) on the value of derivative agreements. The rates proposed were minimums as countries could set higher rates if they wished. The proposal was also comprehensively designed such that it captured all trades involving any EU registered entity, and all trades involving any EU issued securities. The initial proposal anticipated an annual EU-wide FTT income of between €30bn-€50bn per annum.

The subsequent development of the FTT proposal has seen slow progress at EU level. While between 9 and 11 member states have signalled a willingness to implement the proposal, the precise nature of the tax and breath of the tax base has remained under discussion. Ireland is one of the EU member states that has not, as yet, signalled an intention to implement the tax. However, it has not impeded its development under the enhanced cooperation mechanism.

EU debates are currently focused on the FTT tax base with proposals to narrow it to shares only competing with alternative views focused on retaining a wide base across shares, bonds and derivatives. There is also a considerable financial lobby working to encourage a dilution of the initial broad EU FTT proposal. The scale of this initiative is understandable, given that the tax would most likely reduce the commissions and profits associates with the speculative transactions these financial firms engage in.

However, policy makers need to be reminded that the core argument for these taxes is that they are in the broader interest as they dampen irrelevant and unnecessary financial speculation and thereby underpin the stability of European states. For societies an FTT is a win-win; less needless financial speculation and more state revenue.

Over the past few years a group has emerged in Ireland to support the adoption of the FTT.¹⁰ In our opinion, the tax offers the dual benefit of dampening needless and often reckless financial speculation and generating significant funds. A report from the Nevin Economic Research Institute estimated the likely revenue yield from the FTT's adoption by Ireland. Taking account of the need for Government to abolish stamp duty on shares, the report estimated a net revenue yield of between €320m and €350m per annum (Collins, 2016).

We believe that the revenue generated by this tax should be used for national economic and social development and international development co-operation purposes, in particular assisting Ireland and other developed countries to fund overseas aid and reach the UN ODA target. According to the United Nations, the amount of annual income raised from a Tobin tax would be enough to guarantee to every citizen of the world basic access to water, food, shelter, health and education. Therefore, this tax has the potential to wipe out the worst forms of material poverty throughout the world.

Social Justice Ireland believes that the time has come for Ireland to support the introduction of a Financial Transactions Tax and we encourage the Commission to recommend its adoption.

Carbon Taxes

Budget 2010 announced the long-overdue introduction of a carbon tax. This had been promised in Budget 2003 and committed to in the *National Climate Change Strategy* (2007). The tax has been structured along the lines of the proposal from the 2008/09 Commission on Taxation (2009: 325-372) and is linked to the price of carbon credits which was set at an initial rate of €15 per tonne of CO₂ and subsequently increased in Budget 2012 to €20 per tonne. Budget 2013 extended the tax to cover solid fuels on a phased basis from May 2013 with the full tax applying from May 2014. Budget 2020 further increased the tax (to €26 per tonne) and this was increased further, to €33.50 per tonne, in Budget 2021. The 2020 Finance Act included a schedule of annual carbon tax increases so that it reaches €100 per tonne in 2030; reflecting commitments in the Programme for Government and the recommendations of the 2019 all-party report on climate change.

Social Justice Ireland welcomed the introduction of this tax, we regretted the initial lack of accompanying measures to protect those most affected by it, in particular low-income households and rural dwellers. While this has not been fully addressed, we welcome that all revenue from

¹⁰ *Social Justice Ireland* is a member of this group, see www.robinhoodtax.ie

carbon tax increases since 2020 have been earmarked to fund environmental programmes, energy efficiency measures and social protection measures targeting low-income households. Looking to the planned increases over the next decade, we believe that Government should be more specific in defining how it will assist these rural and low-income households. Furthermore, we are concerned that the effectiveness of the tax is being undermined as there is less focus on the original intention of encouraging behavioural change and greater emphasis on raising revenue.

3.3 Building a Fairer Taxation System

The need for fairness in the tax system was clearly recognised in the first report of the Commission on Taxation four decades ago. It stated:

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

The need for fairness is just as obvious today and *Social Justice Ireland* believes that this should be a central objective of the current reform of the taxation system. Below we outline a series of reforms that would greatly enhance the fairness of Ireland’s taxation system. This subsection is structured in five parts:

- Standard rating discretionary tax expenditures
- Favouring fair changes to income taxes
- Introducing Refundable Tax Credits
- Reforming individualisation
- Making the taxation system simpler

Standard rating discretionary tax expenditures

Making all discretionary tax reliefs/expenditures only available at the standard 20 per cent rate would represent a crucial step towards achieving a fairer tax system. If there is a legitimate case for making a tax relief/expenditure available, then it should be made available in the same way to all. It is inequitable that people on higher incomes should be able to claim certain tax reliefs at their top marginal tax rates while people with less income are restricted to claim benefit for the same relief at the lower standard rate of 20 per cent. The standard rating of tax expenditures, otherwise known as reliefs, offers the potential to simultaneously make the tax system fairer and fund the necessary developments they are designed to stimulate without any significant macroeconomic implications.¹¹

Recent Budgets have made substantial progress towards achieving this objective and we welcome these developments. However, there remains considerable potential to introduce further reform. Notably, Collins (2013:17) reported that in 2009 (the latest Revenue data available) there were €2.3bn of tax breaks made available at the marginal rate and that if these

¹¹See O’Toole and Cahill (2006:215) who also reach this conclusion.

were standardised the estimated saving was just over €1bn.

Favouring fair changes to income taxes

Reducing taxes is not a priority for *Social Justice Ireland* either in forthcoming Budgets or any future plans for taxation policy reforms. We believe that any available money should be used to improve Ireland's public services and infrastructure, reduce poverty and social exclusion and to meet our national climate targets – policy priorities detailed throughout our annual Social Justice Matters publication. However, discussion and policy considerations often focuses on income taxation reductions, and as a consequence, we have published a series of documents over the past few years that have examined, from the perspectives of fairness, various reform choices. The most recent document is entitled *Fairness in Changing Income Taxes* (Social Justice Ireland, 2020).¹² As a minimum, the analysis highlights the distributive impact taxation policy choices can have and the potential policy has to pursue both fair and unfair outcomes.

Introducing refundable tax credits

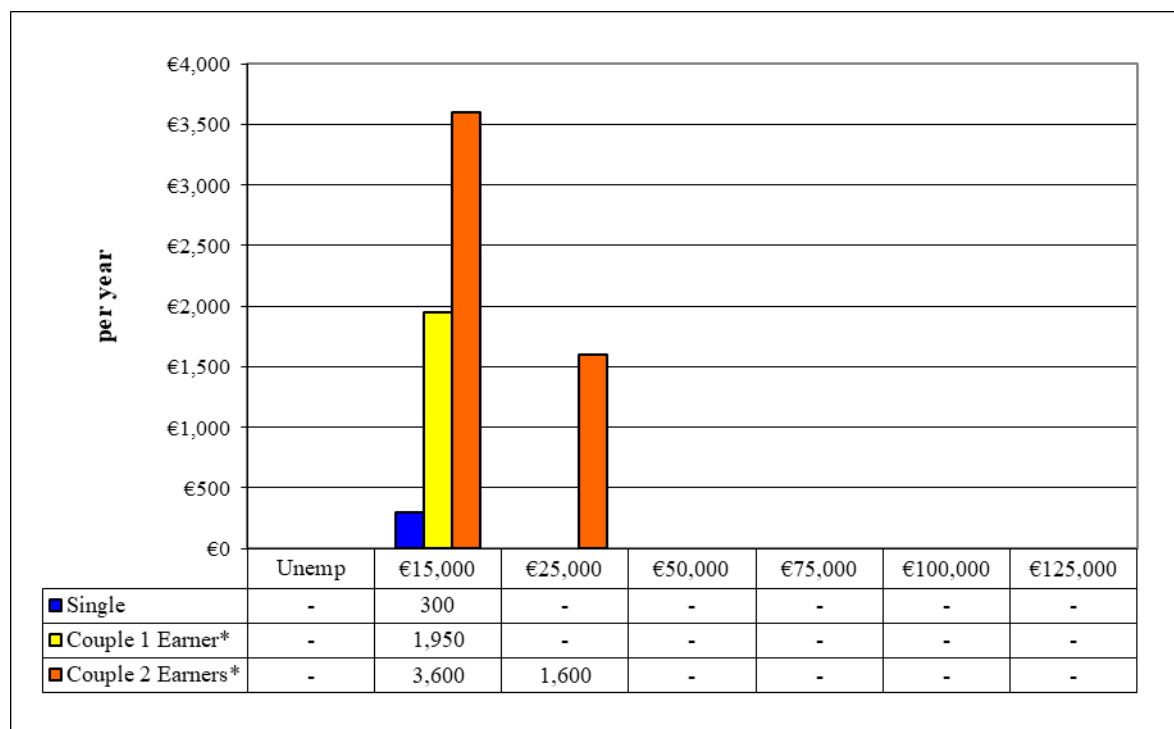
The move from tax allowances to tax credits was completed in Budget 2001. This was a very welcome change because it put in place a system that had been advocated for a long time by a range of groups. One problem persists, however. If a low income worker does not earn enough to use up his or her full tax credit then he or she will not benefit from any income tax reductions introduced by Government in its annual budget. As we have demonstrated in a number of our recent post-budget publications, this has been the case for a large number of low income workers following recent Budgets.

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

The major advantage of making tax credits refundable lies in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). Chart 3.4 displays the impacts of the introduction of this policy across various gross income levels using the tax credits in place in 2021. It shows that all of the benefits from introducing this policy would go directly to those on the lowest incomes.

Chart 3.4: How Much Better Off Would People Be if Tax Credits Were Made Refundable?

¹² The document is available on our website.



Notes: * Except where unemployed as there is no earner. Analysis is for the 2021 tax system.

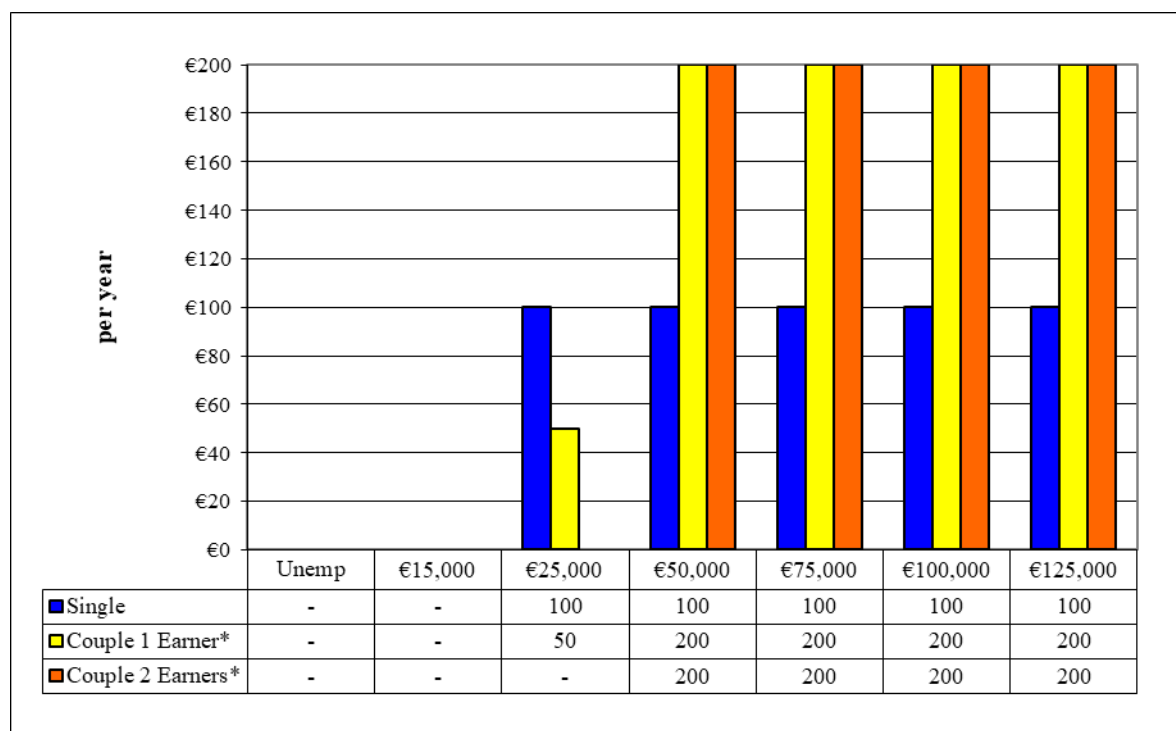
With regard to administering this reform, the central idea recognises that most people with regular incomes and jobs would not receive a cash refund of their tax credit because their incomes are too high. They would simply benefit from the tax credit as a reduction in their tax bill. Therefore, as chart 3.4 shows, no change is proposed for these people and they would continue to pay tax via their employers, based on their net liability after deduction of tax credits by their employers on behalf of the Revenue Commissioners. For other people on low or irregular incomes, the refundable tax credit could be paid via a refund by the Revenue Commissioners at the end of the tax year. Following the introduction of refundable tax credits, all subsequent increases in the level of the tax credit would be of equal value to all employees.

To illustrate the benefits of this approach, charts 3.5 and 3.6 compare the effects of a €100 increase in the personal tax credit before and after the introduction of refundable tax credits using the 2021 income taxation system. Chart 3.5 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 those workers whose earnings are not in the income tax net.

Chart 3.6 shows how the benefits of a €100 a year increase in personal tax credits would be distributed under a system of refundable tax credits. This simulation demonstrates the equity attached to using the tax-credit instrument to distribute budgetary taxation changes. The benefit to all categories of income earners (single/couple, one-earner/couple, dual-earners) is the same. Consequently, in relative terms, those earners at the bottom of the distribution do best.

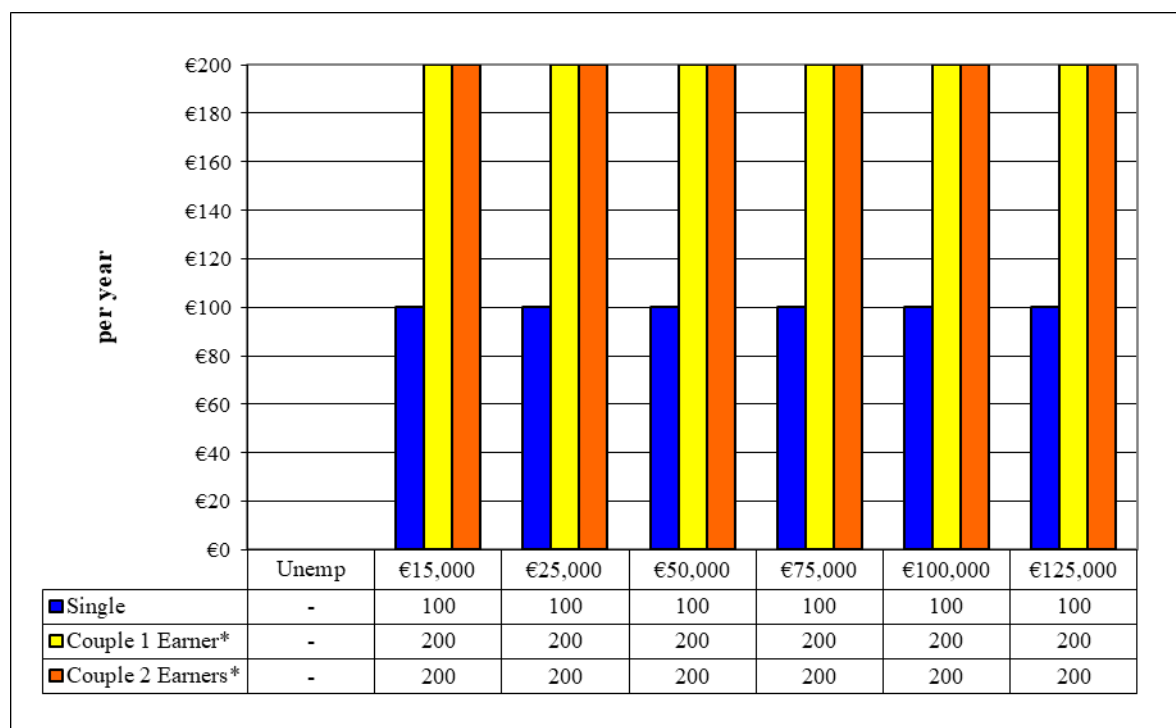
Chart 3.5: How Much Better Off Would People Be if Tax Credits Were Increased by €100

Per Person?



Notes: * Except where unemployed as there is no earner. Analysis is for the 2021 tax system.

Chart 3.6: How Much Better Off Would People Be if Tax Credits Were Increased by €100 Per Person and This was Refundable?



Notes: * Except where unemployed as there is no earner. Analysis is for the 2021 tax system.

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

During 2010 *Social Justice Ireland* published a detailed study on the subject of refundable tax credits. Entitled '*Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits*', the study identified that the proposed system would benefit 113,000 low-income individuals in an efficient and cost-effective manner.¹³ When children and other adults in the household are taken into account the total number of beneficiaries would be 240,000. The cost of making this change would be €140m. The *Social Justice Ireland* proposal to make tax credits refundable would make Ireland's tax system fairer, address part of the working poor problem, and improve the living standards of a substantial number of people in Ireland. The following is a summary of that proposal:

Making tax credits refundable: the benefits

- Would address the problem identified already in a straightforward and cost-effective manner;
- No administrative cost to the employer;
- Would incentivise employment over welfare as it would widen the gap between pay and welfare rates;
- Would be more appropriate for a 21st century system of tax and welfare.

Details of Social Justice Ireland proposal

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

¹³The study is available from our website: www.socialjustice.ie

Cost of implementing the proposal

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

Major findings

- Almost 113,300 low income individuals would receive a refund and would see their disposable income increase as a result of the proposal.
- The majority of the refunds are valued at under €2,400 per annum, or €46 per week, with the most common value being individuals receiving a refund of between €800 to €1,000 per annum, or €15 to €19 per week.
- Considering that the individuals receiving these payments have incomes of less than €15,600 (or €299 per week), such payments are significant to them.
- Almost 40 per cent of refunds flow to people in low-income working poor households who live below the poverty line.
- A total of 91,056 men, women and children below the poverty threshold benefit either directly through a payment to themselves or indirectly through a payment to their household from a refundable tax credit.
- Of the 91,056 individuals living below the poverty line that benefit from refunds, most (over 71 per cent) receive refunds of more than €10 per week with 32 per cent receiving in excess of €20 per week.
- A total of 148,863 men, women and children above the poverty line benefit from refundable tax credits either directly through a payment to themselves or indirectly (through a payment to their household. Most of these beneficiaries have income less than €120 per week above the poverty line.
- Overall, some 240,000 individuals (91,056 + 148,863) living in low-income households would experience an increase in income as a result of the introduction of refundable tax credits, either directly through a refund to themselves or indirectly through a payment to their household.

Once adopted, a system of refundable tax credits as proposed in our study would result in all future changes in tax credits being experienced equally by all employees in Irish society. Such a reform would mark a significant step in the direction of building a fairer taxation system and represent a fairer way for Irish society to allocate its resources.

Reforming individualisation

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

Given the current form of individualisation, couples with one partner losing his/her job end up

even worse off than they would have been had the current form of individualisation not been introduced. Before individualisation was introduced, the standard-rate income-tax band was €35,553 for all couples. Above that, they would start paying the higher rate of tax. On a 2021 income taxation system basis, the standard-rate income-tax band for single-income couples is €44,300 while the band for dual-income couples covers a maximum of a further €26,300 (up to €70,600). If one spouse (of a couple previously earning two salaries) leaves a job voluntarily or through redundancy, the couple loses the value of the second tax band.

Making the taxation system simpler

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

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

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

3.4 Key Taxation Policy Priorities

Social Justice Ireland believes that if the challenges and needed reforms we have highlighted above are to be effectively addressed, the key policy priorities in this area should be to:

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

Policy priorities under each of these headings are listed below.

Increase the overall tax-take

- Move towards increasing the total tax-take so that sufficient revenue is collected to provide redistribution and public services at average-European levels.

Broaden the tax base

- Continue to reform the area of tax expenditures and further enhance procedures within the Department of Finance and the Revenue Commissioners to monitor on an on-going basis the cost and benefits of all current and new tax expenditures;
- Continue to increase the minimum effective tax rates on very high earners (those with incomes in excess of €125,000) so that these rates are consistent with the levels faced by PAYE workers;
- Move to negotiate an EU wide agreement on minimum corporate taxation rates (a rate of 17.5 per cent would seem fair in this situation);
- Adopt policies to ensure that corporations based in Ireland pay a minimum effective corporate tax rate of 10 per cent. As an interim measure introduce a 6 per cent rate in the next Budget;
- Impose charges so that those who construct or purchase second homes pay the full infrastructural costs of these dwellings;
- Restore the 80 per cent windfall tax on the profits generated from all land re-zonings;
- Join with other EU member states to adopt a financial transactions tax (FTT) and discourage needless and unwelcome financial market speculation;
- Adopt policies which further shift the burden of taxation from income tax to eco-taxes on the consumption of fuel and fertilisers, waste taxes and a land rent tax. In doing this, government should minimise any negative impact on people with low incomes.

Develop a fairer taxation system

- Apply only the standard rate of tax to all discretionary tax expenditures;
- Make tax credits refundable;
- Accept that where reductions in income taxes are being implemented, they should favour fair options which do not skew the benefits towards higher earners;
- Ensure that individualisation in the income tax system is done in a fair and equitable manner;
- Integrate the taxation and social welfare systems;
- Begin to monitor and report tax levels (personal and corporate) in terms of effective tax rates;
- Develop policies which allow taxation on wealth to be increased;
- Ensure that the distribution of all changes in indirect taxes discriminate positively in

favour of those with lower incomes;

- Adopt policies to simplify the taxation system;
- Poverty-proof all budget tax packages to ensure that tax changes do not further widen the gap between those with low income and the better off.

4. Redistribution and Welfare¹⁴

Social Justice Ireland's engagement on public policy issues associated with redistribution and welfare reflects the aforementioned policy framework (section 2) and our Core Policy Objective for this area. That objective, which we state at the outset of any of our engagements on this issue, is:

To provide all with sufficient income to live life with dignity. This would require enough income to provide a minimum floor of social and economic resources in such a way as to ensure that no person in Ireland falls below the threshold of social provision necessary to enable him or her to participate in activities that are considered the norm for society generally.

Given the terms of reference of the Commission on Taxation and Welfare, we have structured this aspect of our submission in four parts:

4.1 Key Evidence

4.2 Benchmarking Welfare Payments

4.3 Individualising Social Welfare Payments

4.4. Introducing a Basic Income

Overall, we believe that if the challenges and needed reforms we address in this section of our submission are to be effectively addressed, Ireland's key policy priorities in this area should be to:

- increase in social welfare payments;
- equity of social welfare rates;
- adequate payments for children;
- refundable tax credits;
- decent rates of pay for low paid workers;
- a universal state pension; and
- a cost of disability payment.

We outline these areas in much more details as part of our annual Socio Economic Review, *Social Justice Matters* (see Chapter 3), and as part of our annual pre-Budget *Budget Choices* document.

4.1 Key Evidence

The Role and Importance of the Welfare System

Social Justice Ireland believes in the very important role that social welfare plays in addressing poverty. As part of the *SILC* results the CSO has provided an interesting insight into the role that social welfare payments play in tackling Ireland's poverty levels. It has calculated the levels of

¹⁴ We will update some of the figures in this section, to reflect Budget 2022 and recent data, as part of our 2022 *Social Justice Matters* document. While these changes will be small, relative to the figures presented here, they will be available to the Commission once our document is published in April/May 2022.

poverty before and after the payment of social welfare benefits.

Table 4.1 shows that without the social welfare system just over 4 in every 10 people in the Irish population (41.4 per cent) would have been living in poverty in 2019. Such an underlying poverty rate suggests a deeply unequal distribution of direct income; an issue we address further in the income distribution section of this chapter. In 2019, the actual poverty figure of 12.8 per cent reflects the fact that social welfare payments reduced poverty by 28.6 percentage points.

Looking at the impact of these payments on poverty over time, the increases in social welfare over the period 2005-2007 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, and therefore higher levels of social welfare payments, in subsequent years delivered greater reductions. This has occurred even as poverty levels before social welfare increased.

A report by Watson and Maitre (2013) examined these effects in greater detail and noted the effectiveness of social welfare payments, with child benefit and the growth in the value of social welfare payments, playing a key role in reducing poverty levels up until 2009. The CSO have also shown that in 2009 poverty among those aged 65 and older reduced from 88 per cent to 9.6 per cent once social welfare payments were included. The same study also found that social welfare payments (including child benefit) reduced poverty among those under 18 years of age from 47.3 per cent to 18.6 per cent – a 60 per cent reduction in poverty risk (CSO, 2010:47)¹⁵.

These findings, combined with the social welfare impact data in table 4.1, underscore the importance of social transfer payments in addressing poverty; a point that needs to be borne in mind as the Commission considers its recommendations in this area.

Table 4.1: The Role of Social Welfare (SW) Payments in Addressing Poverty

	2001	2004	2008	2012	2016	2019
Poverty pre-SW	35.6	39.8	43.0	50.2	44.9	41.4
Poverty post-SW	21.9	19.4	14.4	16.9	16.2	12.8
The role of SW	-13.7	-20.4	-28.6	-33.3	-28.7	-28.6

Source: CSO SILC Reports (various years) using national equivalence scale.

CSO SILC data, and the analysis Social Justice Ireland publishes as part of our annual *Social Justice Matters* (see Chapter 3 and associated Annex) and *Poverty Focus* publications, show that many of the groups in Irish society that experienced increases in poverty levels over the last decade have been dependent on social welfare payments. These include pensioners, the retired, lone parents and those who are ill or have a disability. Table 4.2 presents the results of an analysis of five key welfare recipient groups performed by the ESRI using poverty data for five of the years between 1994 and 2001. These were the years that the Irish economy grew fastest and the core years of the ‘Celtic Tiger’ boom. Between 1994 and 2001 all categories experienced large growth in their poverty risk. For example, in 1994 only five out of every 100 old age pension recipients were in poverty. In 2001 this had increased ten-fold to almost 50 out of every 100. The experience of widow’s pension recipients is similar.

¹⁵ This data has not been updated in subsequent SILC publications.

Table 4.2: Percentage of Persons in Receipt of Welfare Benefits/Assistance Who Were Below the 60 Per Cent Median Income Poverty Line, 1994-2001

	1994	1997	1998	2000	2001
Old age pension	5.3	19.2	30.7	42.9	49.0
Unemployment benefit/assistance	23.9	30.6	44.8	40.5	43.1
Illness/disability	10.4	25.4	38.5	48.4	49.4
Lone Parents allowance	25.8	38.4	36.9	42.7	39.7
Widow's pension	5.5	38.0	49.4	42.4	42.1

Source: Whelan et al (2003: 31).

Table 4.2 highlights the importance of adequate social welfare payments to prevent people becoming at risk of poverty. Over the period covered by these studies, groups similar to *Social Justice Ireland* repeatedly pointed out that these payments had failed to rise in proportion to earnings and incomes elsewhere in society. The primary consequence of this was that recipients slipped further and further back and therefore more and more fell into poverty.

It is important that adequate levels of social welfare be maintained to ensure that the mistakes of the past are not repeated. We consider this a core aspect of the Commission's terms of reference and welcome its inclusion in the work the Commission is undertaking. We outline our proposals to achieve this, via benchmarking welfare payments, below.

Linking Poverty, Taxation and State Expenditure: the Cost of Poverty

Two recent studies have highlighted the costs that poverty imposes on society and on individuals living in poverty. *Social Justice Ireland* believes that these are important and relevant insights as the Commission considers the links between taxation, state expenditure and overall societal outcomes.

A report commissioned by the Society of St Vincent DePaul, and authored by Collins, examined *The Hidden Cost of Poverty* by estimating the public service cost of poverty in Ireland (Collins, 2020). It identified the additional public service costs that Irish society carries as a result of current and past experiences of poverty. The main estimate presented by the report found that the annual public service cost of poverty to Ireland is almost €4.5bn. Expressed in per capita terms this finding implies that poverty imposes a public service cost equivalent to a sum of €913 per person in the state each year (€2,600 per household). The report also noted that this additional public sector expenditure is equivalent to 5.1% of total General Government Revenue and 5% of total General Government Expenditure. Put another way, €1 in every €20 collected by the state from taxes, social insurance and charges ends up being allocated by the state to make up for the way that poverty damages people's lives.

Social Justice Ireland welcomes this report, it provides a heretofore absent benchmark for the recurring annual costs to the state of poverty, and highlights for all members of society, whether they are above or below the poverty line, the costs incurred by society as a result of poverty.

A CSO report published in December 2020 examined *The Intergenerational Transmission of Disadvantages* using data from a module included in the SILC 2019 survey (CSO, 2020). Based on answers from people aged 25-59 about their life situation when they were about 14 years old, the

report explored if a person's household circumstances as a teenager are associated with poverty indicators in later life. Among its findings, the report highlighted the intergenerational impacts of lower completed education levels as respondents whose parents had lower secondary education had a 16.2 per cent risk of poverty as adults compared with 6.2 per cent for those who had parents with third level education. The CSO report also found that financial disadvantage in childhood appears to persist to adulthood. People who described the financial situation of their teenage home as bad were most likely to be at risk of poverty (18.2 per cent) or living in enforced deprivation (39 per cent) as adults in 2019.

4.2 Benchmarking Welfare Payments

As outlined earlier, a lesson from past experiences of economic recovery and growth is that the weakest in our society get left behind unless welfare increases keep track with increases elsewhere in the economy. Consequently, *Social Justice Ireland* believes that benchmarking minimum rates of social welfare payments to movements in average earnings is therefore an important policy priority.

Just over a decade ago Budget 2007 benchmarked the minimum social welfare rate at 30 per cent of Gross Average Industrial Earnings (GAIE). This was a key achievement and one that we correctly predicted would lead to reductions in poverty rates, complementing those already achieved and detailed earlier¹⁶. Since then, the CSO discontinued its *Industrial Earnings and Hours Worked* dataset and replaced it with a more comprehensive set of income statistics for a broader set of Irish employment sectors. A subsequent report for *Social Justice Ireland* found that 30 per cent of GAIE is equivalent to 27.5 per cent of the new average earnings data being collected by the CSO (Collins, 2011). A figure of 27.5 per cent of average earnings is therefore the appropriate benchmark for minimum social welfare payments and reflects a continuation of the previous benchmark using the current CSO earnings dataset.

Table 4.3 applies this benchmark using CSO data for 2019 and 2020. In normal years the data is updated using ESRI projections for wage growth but, given current uncertainties, they have not published any such projections for 2021; therefore we have conservatively assumed a 0 per cent change for 2021. Based on these calculations, in 2021 the updated value of 27.5 per cent of average weekly earnings equals €222.08 implying a shortfall of €19 between the minimum social welfare rates being paid in that year (€203) and this threshold. Should wages rise during 2022 this gap will increase further.

Given the importance of this benchmark to the living standards of many in Irish society, and its relevance to anti-poverty commitments, this deficit highlights a need for public policy to further increase minimum social welfare rates and commit to converging on a benchmark equivalent to 27.5 per cent of average weekly earnings.

Social Justice Ireland encourages the Commission on Taxation and Welfare to recommend the adoption of a benchmark for welfare payments. We believe that this benchmark should be linked to the CSO's published average weekly earnings data with the rate for the minimum social welfare payment set equal to 27.5 per cent of that rate. We believe that a figure at this level would provide

¹⁶ Appendix 1 outlines how this significant development occurred.

a stable and adequate income for welfare dependent individuals while not undermining labour market participation incentives.

Table 4.3: Benchmarking Social Welfare Payments for 2021 (€)

Year	Average Weekly Earnings	27.5% of Average Weekly Earnings
2019*	774.68	213.04
2020**	807.57	222.08
2021**	807.57	222.08

Notes: * actual data from CSO average earnings.

** simulated value based on CSO data/trends and an assumed 0% growth rate in 2021.

4.3 Individualising social welfare payments

The issue of individualising payments so that all recipients receive their own social welfare payments has been on the policy agenda in Ireland and across the EU for several years. *Social Justice Ireland* welcomed the report of the Working Group, *Examining the Treatment of Married, Cohabiting and One-Parent Families under the Tax and Social Welfare Codes*, which addressed some of these individualisation issues.

At present the welfare system provides a basic payment for a claimant, whether that be, for example, for a pension, a disability payment or a jobseeker's payment. It then adds an additional payment of about two-thirds of the basic payment for the second person. For example, in 2021, a couple on the lowest social welfare rate receives a payment of €337.70 per week. This amount is approximately 1.66 times the payment for a single person (€203). Were these two people living separately they would receive €203 each; giving a total of €406. Thus by living as a household unit such a couple receive a lower income than they would were they to live apart.

Social Justice Ireland believes that this system is unfair and inequitable. We also believe that the system as currently structured is not compatible with the Equal Status Acts. People, more often than not women, are disadvantaged by living as part of a household unit because they receive a lower income. We believe that where a couple is in receipt of welfare payments, the payment to the second person should be increased to equal that of the first. Such a change would remove the current inequity and bring the current social welfare system in line with the terms of the Equal Status Acts (2000-2015). An effective way of doing this would be to introduce a basic income system (see next subsection) which is far more appropriate for the society and economy of the 21st century.

4.4 Introducing a Basic Income

Over the past two decades major progress has been achieved in building the case for the introduction of a Basic Income in Ireland. This includes the publication of a *Green Paper on Basic Income* by the Government in September 2002 and the publication of a book by Clark entitled *The Basic Income Guarantee* (2002). A major international conference on Basic Income was held in Dublin during Summer 2008 at which more than 70 papers from 30 countries were presented. More recently, *Social Justice Ireland* hosted a conference and published a book on Basic Income (*Basic Income: Radical Utopia or Practical Solution?*), new European and Irish Basic Income networks have emerged, and the concept of a Basic Income has moved to become one commonly

discussed and considered in public policy contexts¹⁷. *Social Justice Ireland* welcomed the commitment in the current *Programme for Government- Our Shared Future* (2020) to the adoption of a Universal Basic Income pilot during the lifetime of the current Government and we look forward to engaging with Government on the design, implementation and evaluation of that initiative. Recent results from the European Social Survey suggest that 58 per cent of the Irish population are in favour of the introduction of a Basic Income.

The case for a Basic Income

Social Justice Ireland has consistently argued that the present tax and social welfare systems should be integrated and reformed to make them more appropriate to the changing world of the 21st century. To this end we have sought the introduction of a Basic Income system. This proposal is especially relevant at the present moment of economic upheaval.

A Basic Income is an income that is unconditionally granted to every person on an individual basis, without any means test or work requirement. In a Basic Income system every person receives a weekly tax-free payment from the Exchequer while all other personal income is taxed, usually at a single rate. The basic-income payment would replace income from social welfare for a person who is unemployed and replace tax credits for a person who is employed.

Basic income is a form of minimum income guarantee that avoids many of the negative side-effects inherent in social welfare payments. A Basic Income differs from other forms of income support in that:

- It is paid to individuals rather than households;
- It is paid irrespective of any income from other sources;
- It is paid without conditions; it does not require the performance of any work or the willingness to accept a job if offered one; and
- It is tax free.

There is real danger that the plight of large numbers of people excluded from the benefits of the modern economy will be ignored. Images of rising tides lifting all boats are often offered as government's policy makers and commentators assure society that prosperity for all is just around the corner. Likewise, the claim is often made that a job is the best poverty fighter and consequently priority must be given to securing a paid job for everyone. These images and claims are no substitute for concrete policies to ensure that all members of society are included. Twenty-first century society needs a radical approach to ensure the inclusion of all people in the benefits of present economic growth and development. Basic Income is such an approach.

As we are proposing it, a Basic Income system would replace most social welfare payments and income tax credits. It could be set at a level that would guarantee an income above the poverty line for everyone. It would not be means-tested. There would be no 'signing on' and no restrictions or conditions. In practice, a Basic Income recognises the right of every person to a share of the resources of society.

The Basic Income system ensures that looking for a paid job and earning an income, or increasing

¹⁷ These networks are the European Citizens' Initiative for Unconditional Basic Income and Basic Income Ireland.

one's income while in employment, is always worth pursuing, because for every euro earned the person will retain a large part, while they retain their Basic Income payment. It thus removes poverty traps and unemployment traps in the present system. Furthermore, women and men would receive equal payments in a Basic Income system. Consequently, the Basic Income system promotes gender equality because it treats every person equally.

It is a system that is altogether more secure, rewarding, simple and transparent than the present tax and welfare systems. It is far more employment-friendly than the present system. It also respects other forms of work besides paid employment. This is crucial in a world where these benefits need to be recognised and respected. It is also very important in a world where paid employment cannot be permanently guaranteed for everyone seeking it. There is growing pressure and need in Irish society to ensure recognition and monetary reward for unpaid work. Basic income is a transparent, efficient and affordable mechanism for ensuring such recognition and reward.

Basic income also lifts people out of poverty and the dependency mode of survival. In doing this, it restores self-esteem and broadens horizons. Poor people, however, are not the only ones who should welcome a Basic Income system. Employers, for example, should welcome it because its introduction would mean they would not be in competition with the social welfare system. Since employees would not lose their Basic Income when taking a job, there would always be an incentive to take up employment. Healy and Reynolds (2016: 22-26) address, and refute, a number of other objections raised against the Basic Income proposal.

Costing a Basic Income

During 2016 Murphy and Ward presented an estimate for the cost of a Basic Income for Ireland. Using administrative data from the Census, social protection system and taxation system, the paper estimated a cost where payments were structured as follows: children = €31.05 per week; adults of working age = €150.00 per week; older people aged 66-79 = €230.30 per week; and older people aged 80+ = €240.30 per week). The paper estimated a total cost of €31.3 billion per annum for a Basic Income and outlined a requirement to collect a total of €41.3 billion in revenue (tax and social insurance) to fund a Basic Income plus the retention of other existing targeted welfare supports. It was noted that the necessary revenue could be raised via a flat 40 per cent personal income tax¹⁸ and a increase in employers PRSI contributions, from 10.75 per cent to 13.5 per cent. Under such a system, no individual would actually have an effective tax rate of 40 per cent, as they would always receive their full Basic Income and it would always be tax-free. For example, a single earner on €60,000 would face a net tax rate (after receiving their Basic Income payment) of 27 per cent (Murphy and Ward, 2016: 132).

Overall, the paper offers an affordable and sustainable structure for implementing a Basic Income system in Ireland.

Arguing for a Basic Income

For many decades, the European social model has been offering its citizens a future that it has obviously failed to deliver. Despite strong rhetoric to the contrary, economic issues, targets and

¹⁸ This was for illustrative purposes. The authors believe the money could, and should, be raised in a more progressive manner.

outcomes are constantly prioritised over social issues. As a result, poverty, unemployment and social exclusion have been growing. It is time to recognise that current policy approaches are not working and that an alternative is required.

A Basic Income system has the capacity to be the cornerstone of a new paradigm that would be simple and clear, that would support people, families and communities, that would have the capacity to adapt to rapid technological change in a fair manner, that would enable all people to develop their creativity, and do all of this in a sustainable manner.

The introduction of a Basic Income system would be a radical step towards a desirable future where nobody would be excluded. It would also provide a practical solution to several of the major challenges faced by our societies today if they wish to ensure that every man, woman and child has sufficient income to live life with dignity, has access to meaningful work, and can genuinely participate in shaping the world around them and the decisions that impact on them.

The following are ten reasons to introduce a Basic Income:

- It is work and employment friendly.
- It eliminates poverty traps and unemployment traps.
- It promotes equity and ensures that everyone receives at least the poverty threshold level of income.
- It spreads the burden of taxation more equitably.
- It treats men and women equally.
- It is simple and transparent.
- It is efficient in labour-market terms.
- It rewards types of work in the social economy that the market economy often ignores, e.g. home duties, caring, etc.
- It facilitates further education and training in the labour force.
- It faces up to the changes in the global economy.

5. Recent Social Justice Ireland publications relevant to the Commissions Terms of Reference

1. Housing and Poverty 2022, published 10th January 2022, available online: <https://www.socialjustice.ie/publication/housing-and-poverty-2022>
2. Delivering a Basic Income Pilot Quick Guide, published on 7th December 2021, available online: <https://www.socialjustice.ie/publication/delivering-basic-income-pilot-quick-guide>
3. Budget 2022 Analysis and Critique (see sections on the distributional impact of social welfare and tax changes and the Social Welfare and Taxation pages), published 13th October 2021, available online: <https://www.socialjustice.ie/publication/budget-2022-analysis-and-critique-video-podcast-and-publication-now-available>
4. Social Welfare Rates: Budget 2022, published 6th September 2021, available online: <https://www.socialjustice.ie/publication/social-welfare-rates-budget-2022>
5. Budget Choices 2022, published 5th July 2021, available online: <https://www.socialjustice.ie/content/publications/budget-choices-2022>
6. National Social Monitor – June 2021 (see sections on Income Distribution and Taxation), published 21st June 2021, available online: <https://www.socialjustice.ie/content/publications/national-social-monitor-june-2021>
7. Delivering a Basic Income Pilot, published 12th May 2021, available online: <https://www.socialjustice.ie/content/publications/delivering-basic-income-pilot-videos-and-presentations>
8. Poverty Focus 2021, published 26th April 2021, available online: <https://www.socialjustice.ie/content/publications/poverty-focus-2021>
9. Social Justice Matters – a 2021 guide to a fairer Irish society (see Chapters on Income Distribution, Work and Taxation), published 3rd March 2021, available online: <https://www.socialjustice.ie/publication/social-justice-matters-2021-guide-fairer-irish-society>
10. Social Justice Matters 2021 – Annex 3 Income Distribution, published 3rd March 2021, available online: <https://www.socialjustice.ie/content/publications/social-justice-matters-2021-annex-3-income-distribution>
11. Social Justice Matters 2021 – Annex 4 Taxation, published 3rd March 2021, available online: <https://www.socialjustice.ie/content/publications/social-justice-matters-2021-annex-4-taxation>
12. Social Justice Matters 2021 – Annex 5 Work, published 3rd March 2021, available online: <https://www.socialjustice.ie/content/publications/social-justice-matters-2021-annex-5-work>

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Eurostat online database, web address: <http://ec.europa.eu/eurostat>

Appendix 1: Benchmarking Social Welfare Payments, 2001-2011

While section 4 considers the current challenges associated with maintaining an adequate level of social welfare, here we examine the transition to benchmarked social welfare payments. That process centred on three elements: the 2001 *Social Welfare Benchmarking and Indexation Working Group* (SWBIG), the 2002 *National Anti-Poverty Strategy (NAPS) Review* and the *Budgets 2005-2007*.

Social welfare benchmarking and indexation working group

In its final report the SWBIG agreed that the lowest social welfare rates should be benchmarked. A majority of the working group, which included a director of *Social Justice Ireland*, also agreed that this benchmark should be index-linked to society's standard of living as it grows and that the benchmark should be reached by a definite date. The working group chose Gross Average Industrial Earnings (GAIE) to be the index to which payments should be linked¹⁹. The group further urged that provision be made for regular and formal review and monitoring of the range of issues covered in its report. The group expressed the opinion that this could best be accommodated within the structures in place under the NAPS and the *National Action Plan for Social Inclusion* (now combined as *NAPinclusion*). The SWBIG report envisaged that such a mechanism could involve:

- the review of any benchmarks/targets and indexation methodologies adopted by government to ensure that the underlying objectives remain valid and were being met;
- the assessment of such benchmarks/targets and indexation methodologies against the various criteria set out in the group's terms of reference to ensure their continued relevance;
- the assessment of emerging trends in the key areas of concern, e.g. poverty levels, labour market performance, demographic changes, economic performance and competitiveness, and
- identification of gaps in the area of research and assessment of any additional research undertaken in the interim.

National Anti-Poverty Strategy (NAPS) review 2002

In 2002, the NAPS review set the following as key targets:

To achieve a rate of €150 per week in 2002 terms for the lowest rates of social welfare to be met by 2007 and the appropriate equivalence level of basic child income support (i.e. Child Benefit and Child Dependent Allowances combined) to be set at 33 per cent to 35 per cent of the minimum adult social welfare payment rate.

Social Justice Ireland and others welcomed this target. It was a major breakthrough in social, economic and philosophical terms. We also welcomed the reaffirmation of this target in *Towards 2016*. That agreement contained a commitment to 'achieving the NAPS target of €150 per week in 2002 terms for lowest social welfare rates by 2007' (2006:52). The target of €150 a week was

¹⁹The group recommended a benchmark of 27 per cent although *Social Justice Ireland* argued for 30 per cent.

equivalent to 30 per cent of Gross Average Industrial Earnings (GAIE) in 2002²⁰.

Table A3.8 outlines the expected growth rates in the value of €150 based on this commitment and indicates that the lowest social welfare rates for single people should have reached €185.80 by 2007.

Table A1.1: Estimating Growth in €150 a Week (30% GAIE) for 2002-2007

	2002	2003	2004	2005	2006	2007
% Growth of GAIE	-	+6.00	+3.00	+4.50	+3.60	+4.80
30% GAIE	150.00	159.00	163.77	171.14	177.30	185.80

Source: GAIE growth rates from CSO Industrial Earnings and Hours Worked (September 2004:2) and ESRI Medium Term Review (Bergin et al, 2003:49).

Budgets 2005-2007

The NAPS commitment was very welcome and was one of the few areas of the anti-poverty strategy that was adequate to tackle the scale of the poverty, inequality and social exclusion being experienced by so many people in Ireland today.

In 2002 *Social Justice Ireland* set out a pathway to reaching this target by calculating the projected growth of €150 between 2002 and 2007 when it is indexed to the estimated growth in GAIE. Progress towards achieving this target had been slow until Budget 2005. At its first opportunity to live up to the NAPS commitment the government granted a mere €6 a week increase in social welfare rates in Budget 2003. This increase was below that which we proposed and also below that recommended by the government's own tax strategy group. In Budget 2004 the increase in the minimum social welfare payment was €10. This increase was again below the €12 a week we sought and at this point we set out a three-year pathway (see table A3.9).

Table A1.2: Proposed Approach to Addressing the Gap, 2005-2007

	2005	2006	2007
Min. SW payment in €'s	148.80	165.80	185.80
€ amount increase each year	14.00	17.00	20.00
Delivered	✓	✓	✓

Following Budget 2004 we argued for an increase of €14 in Budget 2005. The Government's decision to deliver an increase equal to that amount in that Budget marked a significant step towards honouring this commitment. Budget 2006 followed suit, delivering an increase of €17 per week to those in receipt of the minimum social welfare rate. Finally, Budget 2007's decision to deliver an increase of €20 per week to the minimum social welfare rates brought the minimum social welfare payment up to the 30 per cent of the GAIE benchmark.

²⁰GAIE is calculated by the CSO on the earnings of all individuals (male and female) working in all industries. The GAIE figure in 2002 was €501.51 and 30 per cent of this figure equals €150.45 (CSO, 2006: 2).

Social Justice Ireland believes that these increases, and the achievement of the benchmark in Budget 2007, marked a fundamental turning point in Irish public policy. Budget 2007 was the third budget in a row in which the government delivered on its NAPS commitment. In doing so, the government moved to meet the target so that in 2007 the minimum social welfare rate increased to €185.80 per week; a figure equivalent to the 30 per cent of GAIE.

Social Justice Ireland warmly welcomed this achievement. It marked major progress and underscored the delivery of a long overdue commitment to sharing the fruits of this country's economic growth since the mid-1990s. An important element of the NAPS commitment to increasing social welfare rates was the acknowledgement that the years from 2002-2007 marked a period of 'catch up' for those in receipt of welfare payments. Once this income gap had been bridged, the increases necessary to keep social welfare payments at a level equivalent to 30 per cent of GAIE became much smaller. In that context we welcomed the commitment by Government in *NAPinclusion* to 'maintain the relative value of the lowest social welfare rate at least at €185.80, in 2007 terms, over the course of this Plan (2007-2016), subject to available resources' (2007:42). Whether or not 30 per cent of GAIE (or equivalent values) is adequate to eliminate the risk of poverty will need to be monitored through the *SILC* studies and addressed when data on persistent poverty emerges.

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



Acknowledgement

The work is partly supported by the Department of Rural and Community Development via the Scheme to Support National Organisations and Pobal.



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