TASC's Budget 2015: Executive Summary

Budget 2015 represents a turning point for the Irish economy. After six years of regressive budgetary policies, the Irish public finances permit a change of direction. To ensure recovery is felt across society, the best way for this Budget to "give something back" is through safeguarding health, education and other vital public services, as well as boosting job creation through investment and retraining opportunities.

Reforms are needed to tackle economic inequality, which has worsened throughout boom and bust, and which was a cause of the global crisis. Calls for tax cuts are growing louder but these represent neither an equitable nor a sustainable option. Ireland's national debt is also dangerously high. In its commentary, TASC outlines a progressive way of achieving the three per cent deficit target, while adjusting taxation and public spending to reduce economic inequality. Likewise, the analysis shows it is possible to promote greater equality while creating jobs and protecting the public finances. TASC makes the following proposals for Budget 2015:

Policy	Yield (€m)	Cost (€m)
Pensions-related tax reform[1]	580	
Abolish health insurance tax relief[2]	400	
Lower VAT by 1%		- 350
Fix Step effect in PRSI		- 25
Increase Personal Tax Credit by €200		- 260
48% tax on income above €100,000	365	
Expenditure increases		- 615
Water Charges	500	
Water Credits		- 100
Carryover (incl HRA)	300	
IMF loan refinancing	375	
Additional Tax Revenue[3]	500	
Total	**3,020**	**- 1,350**
Net Total	**1,675**	

Based on recent economic growth and other favourable circumstances, the budget can afford to take far less than the planned €2 billion out of the economy, while still meeting the deficit target in a progressive way.

TASC's proposals for tax reform, alongside carry over measures from last year, amount to a €1,675 million net adjustment, comprising €1,060 million in tax increases and efficiency savings, combined with an additional €615 million of additional spending on health, housing and other vital services. In the full report, TASC provides alternative scenarios that allow for larger or small deficit reductions, depending on economic circumstances and the timeline for certain reforms.

Proposals

Baseline Adjustment (€1.2 billion yield): prior to Budget 2015, the Government is already in line for a yield of €500 million from Water Charges, €300 million in savings from carry over measures (e.g. Haddington Road agreement), while it is estimated that the refinancing of IMF loans will save €375 million.

Water Credits (-€100 million cost) TASC's proposal is that people on low incomes should have all or most of their water charges cancelled out by credits, provided by Irish Water. People and families with special needs would also be protected.

Public Spending on Services, Transfers and Investment (-€500 to -€615 million cost): The alternative to tax cuts is a stabilisation of Ireland's tax base, and if there is scope to "give something back" it should be in the form of support to low income households, bolstering public services and public investment to support job creation. TASC's proposals allow extra funds to cover health, social housing, re-training and other targeted areas where more public spending is crucially needed.

Fix Step effect in PRSI (-€25 million cost) TASC has identified an inequitable 'step effect' in personal income taxation, which affects people on very low incomes so that someone on €19,000 has less take home pay than someone on €18,000. TASC's proposed refund scheme, operated by employers, would taper the onset of PRSI to address this technical anomaly at a cost of €25 million.

Increase Personal Tax Credit by €200 (-€260 million cost): While changes to tax rates and bands disproportionately benefit higher earners, an increase in tax credits of €200 would have the same benefit for a single earner on €25,000 or on €125,000: i.e. an extra €200 each.

Lower VAT by 1% (-€350 million cost): Reducing VAT by 1 percentage point would boost domestic consumption and help kick-start the economy, boosting the spending power of lower income households in particular.

Reform of Tax Relief (€980 million yield): Tax expenditures (tax breaks) play a very prominent role in the Irish tax system and are grossly inequitable. TASC proposes pensions-related tax reform (€580 million yield) and abolition of health insurance tax relief (€400 million yield).

48% Tax on Incomes above €100,000 (€365 million yield) Introducing a third rate of income tax on high incomes would improve equity, while increasing progressivity and flexibility in the tax system. It would affect just under 5 per cent of all people paying income tax.

As shown below, official data by income group shows that on average no tax payers paid more than 30 per cent of their income in income tax, which is far lower than the 41% higher rate. This is partially due to tax breaks. Similarly, even if the maximum rates of USC (7% or 10%) and PRSI (4%) are included, tax paid is still far less than the 52% marginal rate.

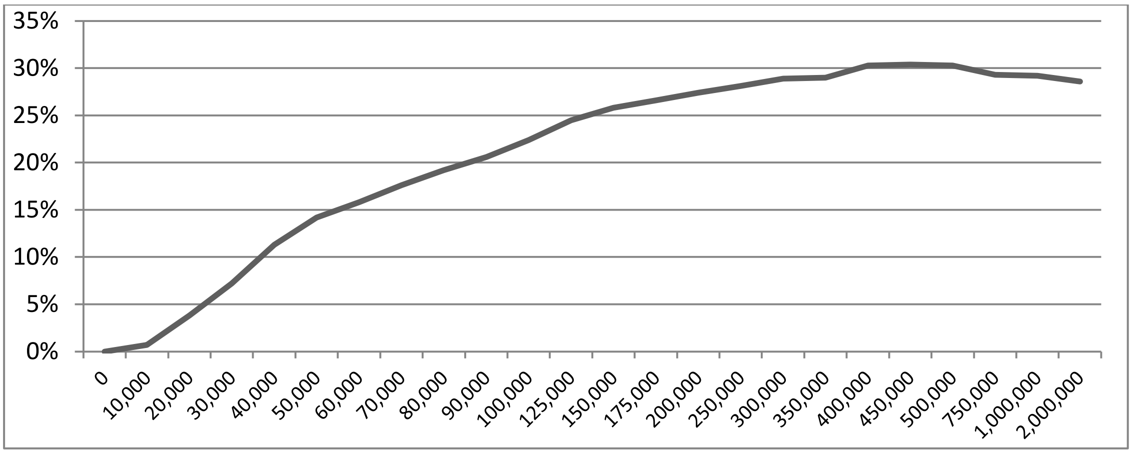

Chart: Average Income Tax paid by Gross Income Group (Revenue Data, 2013)[4]

[1] Calculated from TASC Budget 2014 submission
[2] The level of yield is conservative, based on the recent cap to this tax relief and lack of Revenue data on this cap's effect.
[3] TASC estimate based on August 2014 figures on Tax revenues ahead of profile
[4] Parliamentary Question Written Response, 51353/13:
http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2013120300055#WRC00350