TASC

Closing the Gap:

TASC'S Proposals for a More Equitable Budget

2013

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Preface

TASC is an independent think-tank dedicated to promoting equality, democracy and sustainability through evidence-based policy recommendations. During the 'Celtic Tiger' years, TASC was concerned with Ireland's persistently high levels of economic inequality. During the recent austerity years, TASC's concern with inequality has increased, as many budget decisions have worsened the lives of vulnerable groups and Ireland's income/wealth gaps persist.

TASC's goal in producing its analysis and proposals for Budget 2013 is to put forward options that would achieve the Government's chosen target of €3.5 billion, but by using measures that are less damaging to economic growth and employment, while also being more likely to increase economic equality. As outlined in the document, there are increasing numbers of economic arguments for increasing equality, in terms of efficiency and development, coming from various sources including the IMF and OECD. These efficiency arguments supplement and reinforce long-standing equality arguments from a social justice perspective.

It is a mistake to think that the worst of austerity is behind us. The experience of other countries shows that the most politically difficult decisions are often taken at the end of an austerity programme. The remaining decisions about how to raise taxation or cut spending in order to achieve the Government's stated goal of €8.6 billion further austerity measures (including the €3.5 billion in 2013) will be qualitatively different from what has gone on before. It will not be possible to achieve the Government's stated goal unless major changes are made to public policy. Entire Government programmes may cease unless the decision is taken to raise revenue to fund them. The relative income/wealth position of different sections of society may shift significantly in the near future depending on where the burden of adjustment is placed.

In this context, it is TASC's analysis that maintaining the Government's current 'triple lock' of no increases in income tax, no reductions in social welfare payments and no changes in public pay and pensions is not tenable. However, we argue that social transfers to, and services for, low income and other vulnerable groups should be immune from cuts in Budget 2013.

Ireland's crisis is characterised by a whole series of economic and fiscal imbalances, of which the deficit is one major part, but by no means the only important element.

Ireland has a major 'structural' deficit in the public finances; that is, an excess of spending over revenue that will not go away even if economic growth returns to normal. Estimates of the structural deficit vary, but the Department of Finance estimates that it is 7.5 per cent of GDP (€11.9 billion) and the IMF estimates that it is 6.3 per cent of GDP (€10 billion). TASC argues that the bulk of the deficit should be closed by rebuilding and strengthening Ireland’s tax system, which collapsed after 2008.

Ireland’s bank bailout was the most expensive in the Western world at 40 per cent of GDP. Because Ireland officially accounted for much of the cost of the bailout in 2010, Ireland’s general government expenditure was the highest in the EU in that year (at 66.1 per cent of GDP). A resolution to the banking debt, including substantial restructuring or write-down of the debt, is a necessary component of Ireland’s debt sustainability.

Yet Ireland’s general government expenditure over the ten-year period before the 2010 bank bailout (2000-2009) was the second lowest in the EU, averaging only 36.1 per cent of GDP, nearly 11 percentage points below the EU-27 average for that period (46.9 per cent of GDP). In other words, Irish public spending was only three quarters of the EU average. Average expenditure levels across the EU in this period ranged from 35.9 per cent to 53.9 per cent of GDP. Ireland cannot hope to provide Western European standards of public services without Western European levels of public expenditure.

Similarly, total general government revenue in Ireland was the fifth lowest in the EU over the last ten years (2002-2011) at 35.2 per cent of GDP. This is over nine percentage points lower that the EU-27 average of 44.3 per cent of GDP. Average EU tax levels have ranged from 32.9 per cent to 55.7 per cent of GDP. In particular, Ireland’s level of social insurance (5.8 per cent of GDP in 2010) is the second lowest in the EU, less than half of the weighed EU average (12.7 per cent).

Ireland is the only EU country forecast to have single digit investment (gross fixed capital formation) as a per cent of GDP in 2012 (9.5 per cent). This is approximately half of the EU-27 average level of 18.6 per cent of GDP. Ireland’s use of ‘tax expenditure’ (tax breaks, reliefs, schemes, credits) is among the highest in the EU.

Ireland’s ‘special growth model’ of the last ten years was unsustainable and a factor in the property boom and bust that has done so much harm to Irish society, both in terms of indebtedness and loss of employment. As such, there is a need to examine Ireland’s fiscal and economy policy anew, and to construct a more sustainable and socially beneficial model of development.

In Budget 2013, TASC’s proposals cover the taxation of wealth, an equitable property tax model, reform of pension tax reliefs, targeted increases in excise, environmental taxation and reform to taxation on high earners.

In terms of expenditure, we argue that social transfers to, and services for, low income and other vulnerable groups should be immune from cuts in Budget 2013. Beyond that no other spending items should be exempt from consideration. TASC's proposes savings of €900 million in current expenditure, allowing €200 million of cuts from Budget 2012 to be reversed for a net saving of €700 million.

In the medium term, TASC reiterates the view that Western European standards of public services and supports for the vulnerable can only be achieved if we as a society are willing to maintain Western European levels of public spending. Redistributive tax policies and the social programmes underpinning the welfare state mitigate the inequalities of risk and wealth generated by the market. Government spending can also propel economic development, not only through investments in human and physical capital but also through investments in the social cohesion required for a healthy economic and social environment. Guarantees of a basic and sufficient minimum income, of quality housing, and of free healthcare and education are all important pillars supporting this social cohesion. Although the depth of Ireland's crisis requires many undesirable short-term measures, this should not prevent a planned development of quality public services over time to reach Western European standards.

As part of planning for the future, TASC's proposals for an equitable property tax are designed to maximise revenue from this source. We argue against waivers in favour of an 'ability to pay' system of deferred payment. TASC proposes that many households should be permitted to defer payment until sale of their residence or decease. The accumulated property tax would eventually accrue to the State, but would be a lesser charge in almost all cases than the old residential stamp duty. A deferred payment system would also allow the State to be generous about granting deferrals, for example to householders with very high mortgage and/or childcare costs at this time. Conversely, waiver systems can be abused and are very hard to remove once introduced for a given section of society. As such, waivers would undermine the base of taxpayers paying property tax.

In addition to the above measures, TASC argues that reducing the Government's deficit cannot be the only goal. It is also necessary to act now to prepare the conditions for sustainable economic development and maximum employment growth in future.

TASC proposes that €4.5 billion be taken from the National Pension Reserve Fund over the next four years to fund targeted strategic investment in specific projects identified for their high potential to contribute to the economy's ability to generate long-term growth. Examples of schemes include investment in next generation broadband infrastructure in collaboration with the private sector, as well as investment in human capital through the funding of education and training schemes targeted at the long-term unemployed.

Now is precisely the time for Ireland to examine our values and our long-term aspirations. The choices – and the ‘troika’ have confirmed that they are choices – taken in the next three Budgets will have long-lasting repercussions for Irish society.

Nat O’Connor
Director, TASC

Section One – Overview of TASC's Budget Proposals

Closing the Gap

1. The Irish Government maintained a very low debt to GDP level in the lead up to the economic crash that engulfed the economy in 2008. The annual general government balance even showed a small surplus in some years. However, the state is now running an unsustainable deficit in its public finances; that is, the state's annual income (mostly from tax) is much lower than its annual expenditure. The general government deficit will be approximately 8.3 per cent of GDP (€13.1 billion) in 2012[1].

2. Some of this deficit is 'cyclical' in that it is a function of the economic cycle. It is normal when the economy slows down that the state receives less in tax and other revenue coming in, yet spends more on welfare due to higher unemployment. A cyclical deficit can be worked through and reduced through economic growth, although a prolonged recession can add a lot to the overall national debt.

3. The more serious problem is that much of the Irish state's deficit is 'structural'. The structural balance is an estimate of what the government's surplus or deficit would be if economic activity was operating at its trend or potential level. The structural balance cannot be directly measured and different models and underlying assumptions will produce often wildly different estimates. For example, the IMF estimates the structural deficit is 6.3 per cent of GDP (Table 1) or €10 billion. On the other hand, the Department of Finance's stated estimate of the structural deficit in 2012 is that it will be 7.5 per cent of GDP. This is equivalent to €11.9 billion per year (Table 2). Nevertheless, even though the differences are quite substantial between official estimates, the picture is clear; Ireland has a structural fiscal imbalance of multiple billions.

[1] DoF Stability Programme Update 2012 (April, 2012). Maastricht returns for 22 October 2012 anticipate a deficit of €13.6 billion (8.4 per cent of GDP).

Table 1: Public Finance Projections as % of GDP (2012 to 2015 are forecasts)

	2008	2009	2010	2011	2012	2013	2014
General Government Balance[2]	**-7.3**	**-13.9**	**-30.9**	**-12.8**	**-8.3**	**-7.5**	**-5.0**
Bank support	*0*	*-2.4*	*-19.7*	*-3.7*	*0*	*0*	*0*
GGB excluding bank support	*-7.3*	*-11.5*	*-11.2*	*-9.1*	*-8.3*	*-7.5*	*-5.0*
Primary Balance[3]	-6.0	-9.4	-8.1	-5.9	-4.3	-2.1	0.5
Structural Balance[4]	**-11.5**	**-11.3**	**-10.1**	**-7.8**	**-6.3**	**-5.5**	**-3.6**
Structural Primary Balance	-10.5	-9.1	-6.7	-4.5	-2.2	-0.1	1.8

Source: IMF Staff Report for Ireland, (August 2012)

Table 2: Closing the Gap (€ billions) – Department of Finance Estimates

	2011	2012	2013	2014
General Government Deficit	20.5	13.1	12.4	10.4
Structural Deficit	12.4	11.9	11.3	8.5

Source: Department of Finance Stability Programme Update 2012, (April, 2012)

Core Principles

4. Closing the gap between public spending and government revenue can be achieved in a number of different ways. As the troika and the Government have repeatedly stated, we have the choice of any combination of tax increases and spending cuts so long as the final numbers add up. The Government has freedom to choose what portion of the burden of the adjustment is carried by different sections in society. Public spending choices should reflect considerations of long-term development, short-term demand, economic efficiency, sustainability, and of course social justice and the protection of the most vulnerable. The same considerations apply to tax policy.

5. Higher levels of public services are generally consistent with greater equality because lower income groups are on average more likely to be users of public services and to be net recipients of social transfers. On the other hand, there is little empirical relationship between higher taxes and economic growth. The IMF's research department have shown that over the long-term a trade-off between equality and growth does not exist. They argue:

> *...equality appears to be an important ingredient in promoting and sustaining growth. The difference between countries that can sustain rapid growth for many years...and others that see growth spurts fade quickly, may be the level of*

[2] The general government balance measures the fiscal performance (net lending) of the government sector. It does not include commercial state sponsored bodies.
[3] The primary balance is government net lending excluding interest payments on consolidated government liabilities. Figures shown in the table are excluding bank support.
[4] The structural balance is the cyclically adjusted budget balance excluding once-off items. The structural primary balance also excludes interest payments on consolidated government liabilities.

> *inequality. Improving equality may also improve efficiency, understood as more sustainable long-run growth*[5].

6. Indeed Michael Kumhof and Romain Ranciere (2011)[6] identify increasing levels of income inequality in the years leading up to both the current global crisis and the Great Depression as having a key causal role in the two crises. Speaking at the TASC/FEPS Autumn Conference in October 2012, Michael Förster, senior economist in the OECD Social Policy Division and the main author of the 2011 publication *Divided We Stand: Why Inequality Keeps Rising*, emphasised that inequality is a sign of economic inefficiency.

7. Nor do higher taxes imply a loss of competitiveness. The three most competitive countries in the EU according to the World Economic Forum[7] are Finland, Sweden and the Netherlands; and all three have higher tax-to-GDP ratios than the EU average. Finally, within Europe, the more economically equal higher-tax countries have demonstrably weathered the post-2008 crisis far better than the less economically equal low-tax countries.

Proposed Fiscal Adjustments for Budget 2013

8. According to Eurostat public spending[8] in the European Union (EU) varies between approximately 30 to 60 per cent of GDP. Ireland had relatively low levels of public spending prior to the 2008 crash. Public spending in Ireland averaged 34 per cent of GDP from 2002 to 2007 while the average for the EU over the same period was 46.5 per cent. The spending ratio exploded in 2008 to 2010 as economic output collapsed, the unemployment rate trebled, and the state moved to bail out its banking sector through large scale capital injections. Nevertheless, if we strip out the costs of the bank bailout, Ireland's public spending ratio in GDP terms is still only middle of the pack by EU standards. Reductions in overall public spending to below EU levels are inconsistent with providing Western European quality services in areas like education and health. We cannot have Western European standard public services unless we are willing to pay for it. In the long run public spending levels are constrained by the amount of revenue the state can raise.

[5] Berg, A., and Ostry, J. D. (2011) *Inequality and Unsustainable Growth: Two Sides of the Same Coin*? IMF Discussion Note, No. 11/08. Berg, A., Ostry, J. D. and Zettlemeyer, J. (2008) *What Makes Growth Sustained*? IMF Working Paper No. 08/59.
[6] Kumhof, M., and Ranciere, R. (2010) *Inequality, Leverage and Crises*, IMF Working Paper No. 10/268.
[7] Global Competitiveness Indicators 2012-2013
[8] Public spending data is from Eurostat

9. Eurostat describes Ireland as a low tax country[9]. The European Commission annually undertakes a comprehensive review of EU tax structures. According to the latest review, conducted for 2010, Ireland's overall tax-to-GDP ratio was the sixth lowest in the EU at 28.2 per cent. This was the second lowest level in the Eurozone after Slovakia. The vast majority of government revenue is generated from taxes and social security contributions. The weighted EU average in the same year was over 10 percentage points higher at 38.4 per cent. This massive difference is largely explained by the low levels of social security contributions in Ireland as well as the low levels of local government taxation. Social security contributions in 2010 were dramatically lower in Ireland than they were elsewhere in the EU at a mere 5.8 per cent of GDP. At 12.8 per cent the weighted EU average was more than double this amount. A closer look at the composition of government revenue can be informative. The tax rate on consumption goods is high in Ireland. Consumption taxes are by and large the most regressive taxes. On the other hand, the implicit tax rates on labour and capital are substantially lower than the EU average.

10. The Memorandum of Understanding (MOU) sets out the conditions under which the troika of the EC, the IMF, and the ECB provide funding support for the Irish state and the Irish banking system. According to the terms of the MOU, the Government has agreed to make a cumulative discretionary fiscal adjustment of €3.5 billion in Budget 2013. It is anticipated that the Government's budgetary adjustments will be composed of €2.25 billion in spending cuts and €1.25 billion in tax increases. It appears the spending cuts will disproportionately target the capital budget. In 2012, Ireland's spending on Gross Fixed Capital Formation was the lowest in Europe at 9.5 per cent of gross domestic product: the EU average is 19.1 per cent and Greece is second lowest on 12.4 per cent According to the *Infrastructure and Capital Investment 2012-16: Medium Term Exchequer Framework* (2011), Ireland's level of capital investment will be cut by €562 million in 2013. The official policy of disproportionately targeting capital expenditure runs completely contrary to best practice in terms of minimising the damage to employment and economic growth caused by discretionary fiscal consolidation. Government policy is therefore unnecessarily exacerbating the jobs crisis.

11. TASC proposes quite a different package of fiscal adjustments in Budget 2013 (see Table 3 below). The proposed ratio of tax increases to spending cuts is four to one. In other words a net €2.8 billion of revenue adjustments and a net €0.7 billion of expenditure adjustments. This composition of adjustments is designed to protect the public services on

[9] Tax data is from Eurostat's Taxation Trends in Europe Annual Report 2012

which vulnerable people rely, and to minimise the impact on the incomes and living standards of low and middle income groups. Different revenue raising measures have different impacts on employment and growth. Based on international evidence about the impacts of different taxes[10], TASC has identified a package of revenue raising measures that will minimise damage to employment and output.

12. International evidence suggests that recurrent (annual) taxes on immovable property; taxes on intergenerational wealth transfers, and taxes on passive income are the least damaging to growth. In addition, these taxes tend to be relatively stable over the economic cycle and tend to be very progressive. TASC is proposing a number of measures targeting these areas which will cumulatively yield almost €900 million per annum for the exchequer.

13. Privileging of pensions within the tax system over other forms of investment is damaging to long-run economic growth because it distorts the allocation of investment activity. This reduces efficiency and also creates opportunities for tax avoidance. The system of pension tax reliefs, including the exemption of the lump sum from tax, is highly regressive as most of the benefits of pension tax reliefs go to higher earners. TASC is proposing the curtailment of certain pension tax reliefs which will yield approximately €760 million per annum for the exchequer.

14. TASC is also proposing a set of revenue raising measures targeting economic 'bads' including betting shop profits, added sugar, added salt, added fats, cigarettes and alcohol. It is anticipated these measures will cumulatively yield over €480 million per annum.

15. TASC is proposing a series of anti-pollution measures including an increase in the carbon tax, and the introduction of a car park levy. Cumulatively the environmental measures are expected to yield nearly €120 million.

16. TASC is proposing tax increases on high earners, on the marginal rates above €100,000, yielding almost €150 million.

17. TASC is proposing a net reduction of €700 million in current spending and the establishment of an economic recovery fund using resources from the NPRF.

[10] See for example, Johansson, A., Heady, C., Arnold, J., Brys, B., and Vartia, L. (2008) *Taxation and Economic Growth*. Working Paper Series, No. 620

Table 3: TASC's Proposed Fiscal Adjustments for Budget 2013

	No.	Specific Proposal	Notes and References to Parliamentary Questions [11]	2012 Yield (€m)	2012 Cost (€m)
Revenue Adjustments					
Wealth/Property/Wealth Transfer					
	1	Introduce an annual 0.35 % tax on residential property with an 'ability to pay' related system of deferred payment	Indicative yield assumes an average property value of €180,000 on 1.6 million properties and an assumed 25% deferral rate	756.0[12]	
	2	Abolish the universal household charge			160.0
	3	Reduce the level at which persons and companies may claim interest repayments against tax for residential rental properties from 75% to 40%	€157 million is an underestimate as it only includes claims from individuals (See 42328/12)	157.0+	
	4	Reduce the Group A threshold on Capital Acquisitions Tax from €250,000 to €200,000	(See 28846/12)	15.0	
	5	Reduce Business Relief for Capital Acquisitions Tax from 90% to 50%	(See 42279/12)	30.0	
	6	Reduce Agricultural Relief for Capital Acquisitions Tax from 90% to 50%	(See 42279/12)	70.0	
	7	Introduce a €2.5 million ceiling on the qualifying amount for Business Relief and Agricultural Relief	(See 42279/12)	Unknown	
	8	Apply PRSI to rental income	(See 42192/12)	20.0	
	9	Abolish the rent-a-room relief	(See TSG 11/26)	6.0	
	10	Abolish relief for Employee Share Ownership Trusts	Yield is based on estimated cost for 2009 (See 38291/12)	1.3	
			Sub-Total	*895.3+*	

[11] Seven digit codes refer to written answers to parliamentary questions. TSG refers to the Tax Strategy Group.
[12] Average long-term yield is €980 million as net deferrals sum to zero over the long term. The median property charged at the midpoint of its particular valuation band (€150,000 to €300,000) will be valued at €225,000.

	No.	Specific Proposal	Notes and References to Parliamentary Questions [11]	2012 Yield (€m)	2012 Cost (€m)
Reform of Pension Tax Reliefs					
	11	Confine tax relief to the standard rate of 20% in respect of pension contributions to occupational pension schemes, retirement annuity contracts and personal retirement savings accounts and confine tax relief for the public service pension related deduction to the standard rate of 20%	(See 41397/12)	560.0	
	12	Reduce the tax exemption for lump sum pension payments to the level of the average industrial wage with the balance taxed at the marginal rate of income tax	Assumed average industrial wage of €31,000. €200 million is an underestimate as it does not include the yield from the private sector (See 42329/12)	200.0+	
			Sub-Total	*760.0+*	
Excises – Taxing ‘bads’					
	13	Introduce tax excise duty on saturated fat, added sugar and added salt as outlined in Murray and Collins (2012)[13]	See Table 12 of Murray and Collins (2012)	188.1	
	14	Increase the tax excise duty on a packet of cigarettes by 50 cents	(See 41430/12)	81.3	
	15	Increase the tax excise duty on a bottle of wine by €1.25	(See 41430/12)	59.8	
	16	Increase tax on betting shop profits to 5%	(See 38297/12)	135.0	
	17	Introduce a tax on online gambling of 1%	(See 38296/12)	20.0	
			Sub-Total	*484.2*	
Environmental					
	18	Increase the existing carbon tax rate to €25 per tonne of CO^2 and make commencement order on coal and turf	(See TSG 11/17)	109.0+	
	19	Implementation of €200 car park tax originally introduced in Budget 2009 but never enacted	See Budget 2009	10.0+	
			Sub-Total	*119.0+*	

[13] Murray, M. and Collins, M. (2012) *Modelling the Structure and Distributive Impact of a Fat Tax for Ireland*, Dublin Economics Workshop, Galway, October 2012.

	No.	Specific Proposal	Notes and References to Parliamentary Questions [11]	2012 Yield (€m)	2012 Cost (€m)
Labour Taxation					
	20	Introduce a third band of employer's PRSI contributions at 15% charged on the portion of salaries above €100,000	(See 42179/12)	77.9	
	21	Extend the additional USC of 3% to all income earners, affecting the portion of salaries above €100,000	(See 45113/12)	71.0	
			Sub-Total	*148.9*	
Miscellaneous					
	22	Increase audit, investigation and compliance resources by 125 qualified staff	Estimated cost of €6.5 million per annum to yield €100 million per annum (See 42265/12)	93.5	
	23	Carry-forward effect from Budget 2012 measures	(See 40475/12)	300.0	
			Sub-Total	*393.5*	
Total Revenue				**2,800.9**	
Expenditure Measures				**(€m)**	**(€m)**
	24	Savings under the Public Service Agreement 2010-2014	See Section Four	400	
	25	Additional savings in current expenditure	See Section Four	500	
	26	Reversal of certain Budget 2012 measures	See Section Four		200
Total Expenditure				**700**	
Total Adjustment				**3,500**	

Strategic Planning and Investing in Recovery

18. Restoring sustainability to the public finances is a necessary but insufficient condition for long-run economic prosperity. The €8.6 billion of proposed austerity measures scheduled for the next three budgets (as per Ireland's MOU with the troika) will severely damage prospects for economic recovery in the short-term. In addition, the Irish economy has substantial structural problems and many of the boom-time jobs will never return - particularly in the construction sector. The economy of the future will look quite different from that of the pre crash era and it is imperative that sufficient resources are set aside for the retraining and up-skilling of this cohort of the workforce to match local skills with global demand. The demographic factors and increased labour force participation that enabled rapid growth during the Celtic Tiger era cannot be repeated. There is also limited room for technological catch-up as productivity is now high by international standards.

19. According to Eurostat, Ireland currently has the lowest level of investment (i.e. gross fixed capital formation) in the EU as a proportion of GDP. This is despite several infrastructural weaknesses in the Irish economy. Such low levels of investment will have negative medium-term consequences for Ireland's productive capacity. Potential areas for investment include: the construction of a next generation broadband network; renewable energy sources and infrastructure; water infrastructure; retro-fitting of energy-inefficient buildings; public transport; and primary healthcare infrastructure. This investment could take place over a number of years in collaboration with the private sector. The capital projects (broadband, retro-fitting buildings, renewable energy infrastructure; and public transport) would employ thousands of unemployed construction and plant workers, who make up the largest segment of all those who are unemployed. Thousands more would be employed providing the requisite auxiliary professional, technical and other services. However, the emphasis should be on strategic investment in targeted areas for long-term gain rather than on short-term stimulus measures for the sake of stimulus.

20. TASC proposes that €4.5 billion be taken from the National Pension Reserve Fund over the next four years to fund targeted strategic investment in specific projects identified for their high potential to contribute to the economy's ability to generate long-term growth. Examples of schemes include investment in next generation broadband infrastructure in collaboration with the private sector, as well as investment in human capital through the funding of education and training schemes targeted at the long-term unemployed.

Section Two – Economic Context

The Macroeconomic environment

21. Ireland's Gross Domestic Product (GDP) was €158.7 billion in 2011 while Gross National Product (GNP) stood at €127.0 billion[14]. Taken as a whole, the period from 2001 to 2011 was a lost decade in terms of improving living standards. GNP per person actually declined from €28,463 in 2001 to €28,317 in 2011. In comparison, GNP per person increased by 58 per cent in the previous decade between 1991 and 2001. After three consecutive years of decline, real GDP growth returned in 2011 (1.4 per cent). Nevertheless, Ireland recorded a GNP recession in 2011 for the third time in four years (-2.5 per cent). Growth is likely to remain sluggish in 2012 and 2013 (see Table 4). Medium-term growth will be impaired as Ireland continues to endure the impact of ongoing fiscal consolidation and economy wide over indebtedness. Private household debt, private corporate debt and public debt are now all at highly elevated levels. The lack of lending capacity in the crippled banking sector has implications for future investment, while ongoing deleveraging and future austerity budgets will constrain consumption. Exports have been the one bright spot although even this is now threatened by the ongoing weakness of the major European economies.

Table 4: Real Growth (% volume change on previous year)

	2007	2008	2009	2010	2011	2012 (forecast)	2013 (forecast)	2014 (forecast)
Real GDP growth	**5.4**	**-2.1**	**-5.5**	**-0.8**	**1.4**	**0.4**	**1.4**	**2.5**
Private Consumption	6.4	-0.1	-5.4	1.0	-2.4	-1.9	-0.2	1.4
Public Consumption	6.5	0.6	-4.4	-6.5	-4.3	-3.0	-0.7	-3.5
Fixed Investment	2.3	-10.0	-27.6	-22.8	-12.6	-4.0	-0.1	4.5
Exports	8.4	-1.1	-3.8	6.2	5.1	2.8	3.5	4.5
Imports	*7.9*	*-3.0*	*-9.7*	*3.6*	*-0.3*	*0.8*	*2.5*	*3.5*
Real GNP growth	**4.2**	**-1.8**	**-8.1**	**0.9**	**-2.5**			
Real GNI growth	**4.0**	**-1.8**	**-7.8**	**0.8**	**-2.5**			

Sources: Central Statistics Office (Quarterly National Accounts, 20 September 2012, Table 1, Table 3); European Commission (Economic Adjustment Programme for Ireland Summer 2012 Review, September 2012, Table 2); Department of Finance (Budgetary and Economic Statistics, October 2012, Table 22)

[14] Output data is obtained from: Department of Finance Budgetary and Economic Statistics (October, 2012, Tables 12, 27); Central Statistics Office National Income and Expenditure; CSO Quarterly National Household Surveys; European Commission Review of Ireland, Summer 2012.

22. The last ten years were also a lost opportunity in terms of generating sustainable employment[15]. In the second quarter of 2012 the total number of persons in work in Ireland stood at 1.79 million people. The construction bubble expanded the number of people at work to a peak of 2.12 million by 2007. However, by 2011 total employment had plummeted all the way back to 2003 levels; a catastrophic loss of over 300,000 jobs (net) in just four years. The construction sector was at the heart of Ireland's credit-fuelled boom and unsurprisingly it is this sector that has borne the brunt of the subsequent losses in employment. Between June 2008 and June 2012 the construction sector lost over 142,000 net jobs. A large proportion of the job losses in the construction sector will not return for the foreseeable future. Industry shed over 58,000 net jobs in the four years following June 2008, while the wholesale and retail trade sector lost over 49,000 net jobs in the same period. The seasonally adjusted unemployment rate, which in 2007 stood at less than 5 per cent of the labour force, had nearly tripled to 14.8 per cent by June 2012. The unemployment rate for males is now 17.8 per cent, while the equivalent figure for females is 10.9 per cent. The South-East has the highest rate of unemployment in the state at 18.7 per cent and Dublin has the lowest at 12.1 per cent. Perhaps most worryingly the rate of long-term unemployment has now reached 8.8 per cent of the labour force – meaning over 184,000 people are unemployed for longer than one year in duration. This is an increase of over 20,000 from the previous year. Forecasts by the ESRI suggest that employment levels will continue to fall in 2012 and 2013.

Table 5: Selected labour market trends

	2009 (Q2)	2010 (Q2)	2011 (Q2)	2012 (Q2)	2011-2012	2009-2012
Persons Aged 15+ ('000s)	**3,523.8**	**3,512.4**	**3,502.7**	**3,486.2**	**-0.5%**	**-1.1%**
In Labour Force ('000s)	2,203.1	2,152.7	2,125.9	2,096.4	-1.4%	-4.8%
Labour Force Participation (%)	62.5	61.3	60.7	60.1	-0.6pp	-2.4pp
Persons in Employment ('000s)	**1,938.5**	**1,859.1**	**1,821.3**	**1,787.9**	**-33.4**	**-150.6**
Employment Rate 15-64 (%)	62.5	60.4	59.6	59.1	-0.5pp	-3.4pp
Annual Change in Employment ('000s)	-174.3	-79.4	-37.8	-33.4		-150.6
Persons Unemployed ('000s)	**264.6**	**293.6**	**304.5**	**308.5**	**+1.3%**	**+16.6%**
Unemployment Rates (%)	12.0	13.6	14.3	14.7	+0.4pp	+2.7pp

pp = percentage point; All annual changes are Q2 to Q2

Sources: CSO (September, 2011, September 2012), Quarterly National Household Surveys: Quarter 2 2011; Quarter 2 2012 (See Tables 1a, 2d, 6c and 9a)

[15] Employment figures are from: CSO Quarterly National Household Surveys (September, 2011, September 2012, Tables 1a, 2d, 6c, 7a, 7b and 9a); DoF Budgetary and Economic Statistics (October, 2012, Table 27), ESRI QEC (Autumn, 2012)

23. Ireland's competitiveness deteriorated in the years leading up to the 2008 crash although inflation has now been below the ECB target of 2 per cent for four consecutive years. Ireland posted a current account surplus with the rest of the world in 2010 following a number of years of running current account deficits. This was principally due to the decline in domestic demand and therefore to the demand for imports. Ireland is currently ranked as the 27th most competitive country in the world[16]. Within the group of advanced innovation driven economies Ireland performs well in terms of labour market and goods market efficiency, but performs badly in terms of macroeconomic environment and financial market development. Access to finance is identified as the most problematic factor for doing business and Ireland ranks very last out of 144 countries in terms of the soundness of its banks. A lack of access to commercial loans and the high overall level of indebtedness are also identified as major problems.

Table 6: Inflation and Price Changes (Annual percentage change)

	2008	**2009**	**2010**	**2011**	**2012**
Harmonised Index of Consumer Prices (HICP)[17]	3.1	-1.7	-1.6	1.1	1.7
GDP deflator[18]	0.5	-4.6	-2.2	0.2	1.2

Source: Central Statistics Office

Table 7: External Trade and Balance of Payments (% of GDP)

	2008	**2009**	**2010**	**2011**	**2012 (forecast)**	**2013 (forecast)**
Current account[19]	**-5.7**	**-2.3**	**1.1**	**1.1**	**1.8**	**2.7**
Balance of goods and services	9.0	15.9	18.6	21.9	24.1	25.7
Trade Balance	*13.3*	*20.1*	*22.8*	*23.0*	*23.7*	*24.6*
Services Balance	*-4.3*	*-4.3*	*-4.2*	*-1.1*	*0.4*	*1.2*
Balance of income and current transfers	-14.7	-18.2	-17.5	-20.8	-22.3	-23.0

Source: IMF Staff Report for Ireland, 21 August 2012, Table 1

Table 8: Ireland's Competitiveness Challenges

Weakest Indicators	**Global Rank out of 144**
Soundness of banks	144
Government budget balance, % GDP	141
General government debt, % GDP	137
Ease of access to loans	134
Gross national savings, % GDP	124

Ranking is out of 144 countries;
Source: World Economic Forum, Global Competitiveness Indicators 2012-2013

[16] World Economic Forum, Global Competitiveness Indicators 2012-2013
[17] The HICP is the measure of consumer price inflation used in the Euro area. The European Central Bank (ECB) aims to maintain annual inflation rates below, but close to, 2% over the medium term.
[18] The GDP deflator is a measure of the level of prices of all new, domestically produced, final goods and services in the economy. The formula is GDP deflator = 100(Nominal GDP/Real GDP).
[19] The current account is the sum of the balance of trade, net factor income (such as interest payments and repatriated profits) and net transfer payments (such as foreign aid).

Debt Sustainability

24. There is a great deal of uncertainty surrounding Ireland's debt sustainability. The Irish Fiscal Advisory Council[20] expects the debt to GDP ratio to peak in 2013 at just over 120 per cent. TASC has concerns that this is too optimistic as it is based on underlying growth forecasts with substantial downside potential. Indeed the Council's most recent report emphasises the fragility of debt sustainability, particularly given the uncertainty surrounding future growth. The long-term sustainability of a government's debt burden depends on the initial debt to output ratio, the primary balance (i.e. the deficit before interest repayments), the interest rate on borrowings, and the rate of nominal economic growth. In addition, debt sustainability can be undermined by 'stock-flow' adjustments caused by shocks such as bank bailouts and currency devaluations. Ireland's debt to GNP ratio in 2013 is forecast to be approximately 150 per cent. It is doubtful whether this is a sustainable level of debt for a country with such weak growth prospects and an inability to print its own currency. TASC argues that public debt in Ireland and other countries in the Eurozone periphery should be restructured in order to facilitate economic recovery. In the Irish case this restructuring should focus on the legacy banking debt. Debt relief in the form of a package of measures to ease the burden of the banking debt is necessary to ensure debt sustainability[21].

Table 9: Projected General Government Debt 2011-2015

	2011	**2012**[x]	**2013**[x]	**2014**[x]	**2015**[x]
€ billion	169.3	186.7	197.5	204.6	210.0
% GDP	106.5	117.5	120.3	119.5	117.4

X=forecast. Source: Department of Finance, Stability Programme Update, April 2012

Table 10: Composition of Debt, 31 December 2011 (€ millions)

Government Bonds	85,310	State Savings Schemes	11,546
EU/IMF Programme Funding	34,629	Other Debt	9,446
Promissory Notes to Financial Institutions	28,333	**General Government Debt at 31/12/11**	**169,264**

Source: NTMA and Department of Finance

25. The sustainability of Ireland's debt dynamics has been undermined by the bank bailout. The cost to the state in terms of direct transfers to the banking sector is approximately

[20] IFAC Fiscal Assessment Report (September, 2012)
[21] TASC has argued that debt restructuring should partially come in the form of suspension of the annual €3.1 billion promissory note payments to IBRC pending a full renegotiation of the notes.

€64.1 billion. This is equivalent to 40 per cent of GDP. The Irish bank bailout is the costliest bank bailout in Europe since the Second World War if measured as a proportion of national GDP. Almost half of the bailout was funded by way of €30.6 billion in promissory notes. The remaining funds were drawn from the National Pension Reserve Fund and the exchequer.

Table 11: Bank Recapitalisations by the Irish State (€ billions)

	Anglo	INBS	AIB	EBS	BOI	IL&P	Total
2009	4.0	0	3.5	0	3.5	0	11.0
2010	25.3	5.4	3.7	0.9	0	0	35.3
2011	0	0	12.7	0	1.2	2.7	16.5
2012	0	0	0	0	0	1.3	1.3
Total	29.3	5.4	19.9	0.9	4.7	4.0	64.1

Source: Dáil Debates (17 July 2012) Written Answer to 34630/12.

The Austerity Debate and Fiscal Multipliers

26. Evidence about the effect of fiscal policy during times of financial and economic crisis is thin. Theory suggests that, on average, multipliers will be lower in small open economies like Ireland than they will in large closed economies. This is because of higher rates of leakage in the form of imports. On the other hand current conditions in the Eurozone periphery suggest the multiplier (i.e. the effect of Government's tax and spending changes on overall economic growth) is likely to be higher now for those countries than it would have been in the past. In addition, multipliers are likely to be substantially higher during times of slack and high unemployment in the economy. Pontus Rendahl[22] (2012) shows how multipliers rise to, and plateau at, around 1.5 when the unemployment rate is 8 per cent or higher. We can also expect multipliers to be higher when interest rates are at or near zero because the economy can become caught in a liquidity trap in which banks are choosing not to lend because interest rates are too low. Where this is the case, government spending will not crowd out private sector spending.

27. The official growth forecasts for the consolidating countries have been consistently over-optimistic in the last number of years (not just in Ireland). One argument is that the official models are underestimating the size of the fiscal multiplier and by extension the negative impact of discretionary fiscal consolidation (tax increases and spending cuts).

[22] Rendahl, P. (2012) *Fiscal Policy in an Unemployment Crisis*, University of Cambridge Working Paper, February.

The IMF recently reopened the debate about the size of fiscal multipliers and the scale of damage to employment and output caused by discretionary fiscal consolidation[23]. Their estimates found the impact of fiscal consolidation to be large, negative and significant. The main finding of the IMF research was that the multipliers used in generating growth forecasts for a sample of 28 countries were systematically too low by an average of 0.4 to 1.2 and that the actual fiscal multiplier ranges between 0.9 and 1.7. Previously the IMF estimated that for every euro in tax increases or public spending cuts, the effect would be 50 cent removed from GDP. However, the IMF study indicates that the true figure is likely to be between 90 cent and €1.70. The estimated multipliers stood up to a battery of robustness tests. If the IMF estimates are accurate, then the current growth models, which tend to be based on assumed multipliers of 0.5, will overestimate future growth as long as the process of fiscal consolidation is ongoing. One consequence is that Ireland's debt to GDP ratio may fail to stabilise in 2013 in the way that is currently projected.

28. There is an argument that the openness of the Irish economy makes it a 'special case' when considering the size of fiscal multipliers. Given the openness of the Irish economy it is perhaps more appropriate to compare Ireland with sub-national regions within federations than it is to compare Ireland with large economies. Individual states within federations such as the United States and Germany are broadly analogous to small and very open economies. These states are also similar to Ireland in so far as they individually lack control of monetary policy. Most of the recent work on sub-national fiscal multipliers has found multipliers of between 1.5 and 2.5[24]. This suggests that fiscal austerity can have major negative effect on economic growth even in small open economies like Ireland. Likewise, this suggests that targeted investment can be effective in Ireland in increasing growth.

29. Establishing economic growth is a prerequisite to restoring employment to the real economy and restoring Ireland's debt dynamics to a sustainable equilibrium. There is a strong case for targeted measures to reduce long-term unemployment and to address critical infrastructure deficits, for example in next generation broadband infrastructure. TASC is proposing that €4.5 billion over the next four years be taken from the National Pension Reserve Fund and used as part of a fund for schemes targeted at enhancing the

[23] IMF World Economic Outlook (October, 2012)
[24] See for example Nakamura, E. and Steinsson, J. (2011) *Fiscal Stimulus in a Monetary Union: Evidence from US Regions*, NBER Working Paper 17391; Acconcia, A., Corsetti, G., and Simonelli, S. (2011) *Mafia and Public Spending: Evidence on the Fiscal Multiplier from a Quasi-Experiment*, CEPR Discussion Paper DP8305; Shoag, D. (2011) *The Impact of Government Spending Shocks: Evidence on the Multiplier from State Pension Plan Returns,* Harvard Working Paper.

economy's productive and growth capacity and at addressing the growing crisis of long-term structural unemployment.

The Eurozone Backdrop

30. Amongst the many design flaws of European monetary union is that it was constructed without a federal budget to carry out counter-cyclical policies. Reduced tax receipts combined with increased expenditure on social protection during a recession put pressure on an economy's public finances. Unlike the United States and the United Kingdom, the Euro zone has no mechanism in place at the central level to help economic recovery by transferring funds between regions as counter-cyclical "automatic stabilisers". In addition, Eurozone member states no longer have the power to adjust to adverse asymmetric shocks and higher unemployment through currency devaluation and monetary policy. This is because control over these policy instruments is now held by the independent European Central Bank (ECB). Thus Eurozone member states confronted by adverse economic circumstances find themselves in a very difficult position and with fewer policy levers available. This exacerbates the crisis, reduces the prospect of a speedy recovery, and adds to the overall instability of the system. With limited control over macroeconomic policy, depressed regions in a currency union make take years to recover in the absence of external assistance. This of course may be politically unsustainable and can cast doubt over the willingness of the state to repay its debts.

31. The narrow focus on fiscal consolidation within the Eurozone is exacerbating recession and stagnation in the periphery. To counterbalance this fiscal consolidation there is a need for greater fiscal expansion in the Eurozone core. The inability of member states in the periphery to restore competitiveness through currency devaluation should be addressed through differentiated inflation targeting in the Eurozone. Forcing all the burden of the competitiveness adjustment on the debtor countries weakens domestic demand in those countries and makes it more difficult to achieve nominal GDP growth and therefore debt sustainability. Higher levels of inflation and wage growth in the more competitive Eurozone core, combined with more expansionary fiscal policy, is the only way, at least in the short-run, to successfully obtain the twin goals of rebalanced competitiveness and reasonable nominal GDP growth.

Section Three – Reforming Ireland's Tax and Social Insurance System

International Comparisons

32. According to Eurostat[25] Ireland's overall tax-to-GDP ratio in 2010 was the sixth lowest in the EU. This ratio was the second lowest in the Eurozone and just fractionally above that of Slovakia. In comparison the weighted EU average in 2010 was 38.4 per cent. This difference is primarily attributable to the very low social security contributions in Ireland and also to the relatively low levels of local government taxation. Ireland is the third most fiscally centralised country in the EU, with 80.4 per cent of tax revenue accruing to central government (50.2 per cent in the EU). Ireland has a disproportionate reliance on taxes compared to social security contributions. Social security contributions in 2010 were the second lowest in the EU at just 5.8 per cent of GDP – far below the weighted EU average of 12.7 per cent. The very low level of social security contributions is the main reason why Ireland had one of the lowest implicit tax rates on labour in the EU at 26.1 per cent (the weighted EU average was 36.0 per cent).

33. There have been a number of changes to the tax system since 2010. A Universal Social Charge was added in Budget 2011 (replacing the pre-existing health and income levies), the total income tax credits available were reduced by 10 per cent, and the standard rate bands were also reduced by 10 per cent. The aggregate effect of these measures was to increase the implicit tax on labour. Social security contributions were also increased in Budget 2011 and the excise on petrol and auto-diesel was raised. In addition, a number of tax expenditures were restricted or abolished. The standard rate of VAT was increased from 21 per cent to 23 per cent in Budget 2012. Excises on motor vehicles, tobacco and carbon were also increased while betting duty was extended. Capital Acquisitions Tax and Capital Gains Tax were both raised from 25 per cent to 30 per cent and a household charge of €100 was introduced.

34. One school of thought argues that Ireland's tax ratio should be measured as a proportion of GNP rather than GDP, at least when international comparisons are being made. This is because a significant portion of Ireland's GDP is repatriated out of the country by multinationals in the form of profits. Even so, Ireland's tax ratio as a proportion of GNP was 33.9 per cent in 2010 - still 5 percentage points below the weighted EU average. Using GNP instead of GDP brings its own problems. GDP measures all income generated in Ireland, and all of this income is theoretically available to be taxed by the Irish government. Profits intended for repatriation are not immune to taxation. Thus all

[25] Eurostat (2012) "*Taxation Trends in the European Union: Data for the EU Member States, Iceland and Norway*", 2012 Edition

taxation revenue from repatriated profits should be excluded if the tax to GNP ratio is being used as the benchmark for international comparison.

Table 12: Total Tax Revenues in 2010[26]

		2005	2006	2007	2008	2009	2010	Rank[27]
Total (% GDP)								
	Ireland	**30.5**	**32.0**	**31.3**	**29.6**	**28.2**	**28.2**	**22/27**
	EU	39.0	39.5	39.4	39.3	38.4	38.4	
	Eurozone	39.4	40.0	40.0	39.6	39.0	38.9	
Cyclically Adjusted Total (% GDP)								
	Ireland	**29.3**	**29.9**	**28.1**	**28.1**	**29.6**	**30.0**	**22/27**
	EU	38.9	38.6	37.9	38.1	39.4	39.0	
	Eurozone	39.4	39.3	38.6	38.4	40.0	39.6	
Total as % of GNP								
	Ireland	**36.0**	**37.0**	**36.4**	**34.5**	**34.2**	**33.9**	**16/27[28]**
Main Categories								
Taxes on Consumption (% GDP)								
	Ireland	**11.4**	**11.4**	**11.2**	**10.9**	**10.0**	**10.0**	**25/27**
	EU	11.1	11.0	11.0	10.8	10.7	11.0	
	Eurozone	10.8	10.8	10.7	10.5	10.4	10.7	
Taxes on Labour (% GDP)								
	Ireland	**10.4**	**10.4**	**10.7**	**11.3**	**11.7**	**11.7**	**23/27**
	EU	19.5	19.3	19.2	19.6	20.0	19.6	
	Eurozone	20.5	20.3	20.1	20.6	21.0	20.8	
Taxes on Capital (% GDP)								
	Ireland	**8.8**	**10.2**	**9.4**	**7.5**	**6.4**	**6.5**	**14/27**
	EU	8.5	9.2	9.3	8.9	7.8	7.8	
	Eurozone	8.3	9.0	9.3	8.6	7.7	7.6	
Selected Sub Categories								
Taxes on Capital - Stocks of Capital/Wealth (% GDP)								
	Ireland	**2.7**	**3.1**	**2.8**	**2.2**	**2.0**	**2.2**	**10/27**
	EU	2.8	2.9	2.9	2.8	2.6	2.5	
	Eurozone	2.6	2.7	2.7	2.4	2.5	2.3	
Environmental Taxes (% GDP)								
	Ireland	**2.5**	**2.5**	**2.5**	**2.5**	**2.4**	**2.4**	**20/27**
	EU	2.5	2.5	2.4	2.3	2.4	2.4	
	Eurozone	2.5	2.4	2.3	2.2	2.3	2.3	
Employee SSCs (% of GDP)								
	Ireland	1.7	1.6	1.7	1.9	2.3	2.5	**18/27**
	EU	3.8	3.8	3.7	3.8	3.9	3.8	
	Eurozone	4.3	4.2	4.2	4.2	4.3	4.3	
Employer SSCs (% GDP)								
	Ireland	**2.7**	**2.9**	**3.0**	**3.3**	**3.3**	**3.2**	**25/27**
	EU	7.2	7.1	7.1	7.2	7.4	7.3	
	Eurozone	8.1	8.0	8.0	8.1	8.3	8.2	

EU figures represent the weighted average for the twenty seven European Union countries including Ireland; Euro 17 figures represent the weighted average for the seventeen Eurozone members including Ireland
Source: Eurostat, Taxation Trends in Europe Annual Report 2012. Table 1, Table 2, Table 25, Table 27, Table 41, Table 45, Table 55, Table 65, Table 67.

[26] The total includes Social Security Contributions (SSCs).
[27] All rankings are out of 27. A ranking of 1 indicates the largest proportional tax take (including SSCs) in the EU while a ranking of 27 indicates the smallest proportional tax take in the EU.
[28] Compares Ireland's proportional tax take (% of GNP) with the tax take in the other EU countries (% of GDP).

Table 13: Implicit Tax Rates[29]

		2005	2006	2007	2008	2009	2010	Rank
Consumption								
	Ireland	**26.0**	**26.2**	**25.0**	**23.0**	**21.6**	**21.6**	**10/27**
	EU	19.7	19.8	20.0	19.6	19.1	19.7	
	Euro 17	19.3	19.5	19.7	19.2	18.7	19.2	
Labour								
	Ireland	**25.4**	**25.3**	**25.6**	**24.6**	**25.2**	**26.1**	**23/27**
	EU	35.9	36.0	36.2	36.5	36.0	36.0	
	Euro 17	37.8	37.9	38.2	38.4	37.9	38.1	
Capital								
	Ireland	**19.5**	**21.8**	**19.4**	**17.2**	**15.6**	**14.0**	**-**
	Euro 17[30]	28.3	30.4	30.9	29.2	28.3	27.4	

EU figures represent the weighted average for the twenty seven European Union countries including Ireland; Euro 17 figures represent the weighted average for the seventeen Eurozone members including Ireland
Source: Eurostat, Taxation Trends in Europe Annual Report 2012. Table 77, Table 78, Table 79

Table 14: Implicit Tax Rates as Percentage of Weighted Euro Area Average (2010)

Consumption	Labour	Capital
112.5	68.5	51.1

100 = Weighted Euro Area Average
Source: Eurostat, Taxation Trends in Europe Annual Report 2012. Table 77, Table 78, Table 79

Table 15: Level and structure of overall revenues in 2011 (% of GDP)

	Direct	Indirect	Other	Total
Ireland	18.0	11.4	5.7	35.1
EU Average	24.7	13.4	6.3	44.4
OECD Average	22.4	12.6	6.9	41.9

Source: IMF (Ireland: Selected Issues, September, 2012) – Derived from OECD Revenue Statistics

Tax Policy: Basic Principles

35. All taxes influence behaviour in a variety of different ways, and consequently they also impact upon economic efficiency, employment and economic growth in a variety of different ways. The tax system also heavily influences the distribution of income in the economy. Different taxes have sharply different effects. For example, economic theory and the results of numerous empirical studies[31] suggest that taxes on immovable property are much less damaging to economic growth and employment than taxes on income or

[29] Implicit Tax Rates (ITRs) measure the effective average tax take on different types of economic income or activities, i.e. on labour, consumption and capital. The ITR is the ratio between revenue from the tax type under consideration and the maximum possible base for the tax (Eurostat, Taxation trends in the EU, 2012 Edition, p.27).
[30] No figure available for the EU-27.
[31] See for example: Eurostat (2012) *Taxation Trends in Europe 2012*; Johansson, A., Heady, C., Arnold, J., Brys, B., and Vartia, L. (2008) *Taxation and Economic Growth*, OECD Working Paper Series No. 620; Heady, C., Johansson, A., Arnold, L., Brys., and Vartia. L. (2009) *Tax Policy for Economic Recovery and Growth*, University of Kent School of Economics Discussion Papers

consumption. Indeed recurrent (annual) taxes on immovable property are consistently shown to generate the smallest negative impacts on long-run economic growth. Recurrent taxes on net wealth are generally more stable over the economic cycle and less damaging to economic growth than taxes on financial and capital transactions. Recurrent taxes on net wealth are also redistributive if properly designed. Taxes on net wealth are also helpful to tax authorities in fighting tax evasion and criminal activity by revealing inconsistencies between income flows and wealth. The next least damaging form of taxes are taxes on other forms of property, taxes on passive and rental income, and taxes on wealth transfer including, for example, inheritance taxes. Inheritance taxes are an important complement to net wealth taxes. These taxes have a minimal impact on economic growth and play a critically important redistributive role in the economy. Gift taxes are a necessary supplement to inheritance taxes, as otherwise it is straightforward to avoid the inheritance tax.

36. Labour taxes and corporate taxes tend to have the largest negative impacts on economic activity. In some cases there is a trade-off between policy goals. For example, although taxes on labour are generally more damaging to employment and growth, consumption taxes are generally less progressive than taxes on labour. Shifting the composition of taxation from personal income to personal consumption is likely to be regressive overall. The implicit tax rate on consumption in Ireland is already greater than the weighted EU average. On the other hand the implicit tax rates on labour income and capital income are well below the EU average. A heavy reliance on consumption taxes as opposed to other taxes such as capital taxes (as is the case in Ireland) will lead to greater wealth inequality over time because it increases the real value of wealth assets and shifts the tax burden onto those on low incomes.

37. Tax reform involves improving the design of individual taxes. However, it also involves changing the balance of taxation between different sources. For example, we can increase economic efficiency and promote a fairer distribution of income by switching the balance of taxation away from labour taxes on low income workers and instead increasing taxes on economic rents, including land, natural resources and financial sector rents. Improving the design of individual taxes and improving the balance of taxation between sources should be seen as complementary. Context also matters. The marginal effect of a tax increase, or indeed a tax decrease, depends upon the starting point. This is because taxes have non-linear impacts. There tends to be diminishing returns to adjusting taxes upwards, while taxes tend to have smaller effects on employment and growth when they start from a low base. One implication is that low tax economies such as Ireland and

Slovakia are likely to obtain a larger net benefit from raising taxes than will high tax economies such as Denmark and Sweden.

38. Tax expenditures, sometimes known as tax breaks, have a large effect on the Irish tax system. Tax breaks should be seen as analogous to government spending programs. Each tax break will have its own costs and benefits and these costs and benefits will not be uniform across the population. Public spending in the form of tax expenditures tends to deliver larger benefits to higher income households. For example, reliefs that allow a tax deduction at the individual's marginal rate of income tax are more valuable to, and will disproportionately benefit, those with the highest income tax rates.

39. A very basic but crucially important principle that is often forgotten or ignored is the need to ensure that all classes of asset are treated the same way for tax purposes – exempting or preferencing certain classes of asset is inequitable, assists tax avoidance, and is often damaging to long-run economic growth. Preferential treatment through tax reliefs and/or exemptions can even encourage asset price bubbles as happened to great cost in Ireland in the first half of the last decade. Exempting or giving favourable treatment, such as reduced rates, to certain asset categories and types of investment such as pensions[32] and housing[33] distorts investment decisions (thereby reducing the allocative efficiency of the investment decisions) and provides an obvious mechanism for tax avoidance. A common strategy is for an individual to borrow money to reduce his or her net wealth, and then use these borrowings to purchase tax-exempt assets.

Proposals for an Annual Equality Proofed Tax on Immovable Property

40. The arguments for a recurrent tax on immovable property are overwhelming on both efficiency and equality grounds. In particular, recurrent taxes on residential property have been shown to have a minimal negative impact on growth, are hard to avoid or evade, are stable throughout the economic cycle, do not penalise productive activity and do not create barriers to labour mobility. Taxing property is particularly appropriate in the context of increasing globalisation, where the other factors of production (labour and capital) are increasingly mobile.

[32] While a sustainable pension system is an important policy goal, the current strategy in Ireland, heavily skewed as it is towards pension tax reliefs, is wasteful, economically inefficient and deeply inequitable.

[33] Exemptions and reduced tax rates for housing assets, relative to those available for other forms of investment, are likely to be particularly damaging to long-term growth because they distort capital flows away from productive sectors and toward non-productive investments in housing. Housing assets have long been given favourable treatment in Ireland. This has undoubtedly harmed Ireland's long-term growth by diminishing the accumulation of productive capital by the private sector. Preferential treatment for housing and certain other assets such as hotels contributed to the boom-bust cycle that produced the current economic crisis.

41. The broad parameters of TASC's proposed model for a Residential Property Tax (RPT) were outlined in TASC's budgetary proposals for 2011 and 2012. TASC also made a detailed submission of its proposals in March this year to the inter-departmental group on property tax[34]. TASC is proposing that in Budget 2013 a 0.35 per cent levy based on market values be imposed on all residential properties. Exceptions should be made for social housing and for group residential facilities used exclusively for certain specific purposes such as the provision of housing facilities for the homeless. A system of valuation bands should be established to simplify the valuation process, reduce the scope for fraudulent valuations, and minimise the administrative burden. There should be no waivers. Instead there should be an 'ability to pay' based system of deferred payment (including for those with high housing and/or childcare costs at this time) to prevent incidences of hardship. The specific details of TASC's proposed deferral system can be found in the submission to the inter-departmental group. RPTs can be highly equitable[35] if properly designed. However, TASC did not support the introduction of the universal house charge and proposes its abolition in Budget 2013. The universal household charge is a flat charge. Flat charges are the most inequitable type of RPT.

42. TASC accepts that there is an economic rationale for a land or site value tax. However, introducing a land or site value tax based on hedonic valuations will take longer to implement than an RPT based on bands of market values. For this reason, and given the immediacy of the crisis in the public finances, TASC recommends the following:
    a. Introduce a value-based and recurrent (annual) tax on residential property in Budget 2013
    b. Set the tax at 0.35 per cent of the value of the property
    c. Introduce an 'ability to pay' system of deferred payment in order to minimise hardship
    d. Abolish the universal household charge to coincide with the introduction of the new tax
    e. Move to a site value tax on a cost neutral basis in the medium to long-term.
    f. Establish an interdepartmental working group to oversee the closing of data gaps and develop a site value tax.

[34] TASC (2012) *TASC Submission to the Inter-Departmental Group on Property Tax*, March 2012
[35] Callan, T., Keane, C., and Walsh, J. R. (2010) What Role for Property Taxes in Ireland? *The Economic and Social Review*, 41(1), Spring 2010, pp 87-107

Proposals for the Treatment of Passive Income and Intergenerational Wealth Transfers

43. Taxes on property and passive income are generally less damaging to economic growth and employment than other taxes. Tax breaks for non-productive assets such as houses and hotels distort economic activity away from more productive use, and for this reason are actually damaging to long-run economic growth. Such tax breaks and exemptions are also highly regressive as they principally benefit the better off. Taxes on intergenerational wealth transfers also have minimal effects on employment and growth. Intergenerational wealth transfer runs counter to the principle of equity as it perpetuates economic inequality.

44. TASC is proposing the following measures in these areas for Budget 2013:
    a. Reduce the level at which individuals and companies can claim interest repayments against tax for residential rental properties from 75 per cent to 40 per cent
    b. Apply PRSI to rental income
    c. Abolish the rent-a-room relief
    d. Reduce the Category A tax free threshold for Capital Acquisitions Tax (CAT) from €250,000 to €200,000
    e. Amalgamate business relief and agricultural relief for CAT. Reduce from 90 per cent to 50 per cent the level of discount on market value provided by this relief before CAT is calculated. Introduce a €2.5 million ceiling on the qualifying amount for this relief.

Proposals for the Treatment of Pension Tax Reliefs

45. The Irish taxation system is characterised by a number of very generous pension related tax reliefs. There is little economic evidence or theoretical support for privileging investments in pensions as opposed to other forms of investment. Indeed privileging pensions over other forms of investment is damaging to long-run economic growth as it distorts the efficient allocation of investment decisions. Pension tax reliefs also create opportunities for tax avoidance and reduce the progressivity of the tax system. The ESRI has estimated that 80 per cent of the benefits of pension tax reliefs in Ireland go to the top 20 per cent of earners. The system of pension tax reliefs is arguably the most regressive component of the tax system and amounts to a form of social welfare for the better off – particularly reliefs provided at the marginal rate. Finally, there is no justification in equity or efficiency to explain why income windfalls from lump sum pension payments should

be exempt from taxation, in particular windfalls in excess of the average industrial wage. Given the extreme stress of the Government's fiscal position, TASC is proposing that a substantial overhaul of the generous system of pension tax reliefs should begin in Budget 2013[36].

46. TASC is proposing the following measures in these areas for Budget 2013:
    a. Confine tax relief to the standard rate of 20 per cent in respect of pension contributions to occupational pension schemes, retirement annuity contracts and personal retirement savings accounts and confine tax relief for the public service pension related deduction to the standard rate of 20 per cent
    b. Reduce the tax exemption for lump sum pension payments to the level of the average industrial wage with the balance taxed at the marginal rate of income tax. This proposal should take effect immediately following the budget.

Proposals for the Treatment of Excises and Environmental Taxes

47. Certain economic activities create negative externalities such as pollution and other anti-social behaviour which impose costs on the rest of society. In order to internalise the costs of these activities it is appropriate that the consumption of the relevant goods and services should attract higher rates of tax. Although consumption taxes tend to be regressive, consumption taxes are also generally less damaging to economic growth than taxes on production. TASC is proposing a set of measures which cumulatively amount to just over 17 per cent of the total proposed budgetary adjustment. Each proposed measure can individually be justified on public policy grounds. For example, as health promotion measures, TASC is proposing an increase in the excise on cigarettes as well as the introduction of a tax on saturated fat, added sugar and added salt. A well designed and substantial carbon tax will help Ireland reduce its CO_2 emissions in line with Ireland's stated commitment of a 20 per cent reduction in the non-ETS (Emission Trading Scheme) sectors by 2020.

48. TASC is proposing that the following measures be introduced in Budget 2013:
    a. Introduce tax excise duty on saturated fat, added sugar and added salt[37]
    b. Increase the tax excise duty on a packet of cigarettes by 50 cents
    c. Increase the tax excise duty on a bottle of wine by €1.25

[36] TASC's current proposals for the medium-term overhaul of the Irish pension system are outlined in: TASC (2010) *Making Pensions Work for People*, January.
[37] See Murray, M. and Collins, M. (2012) *Modelling the Structure and Distributive Impact of a Fat Tax for Ireland*, Dublin Economics Workshop, Galway, October 2012.

d. Increase the tax on betting shop profits to 5 per cent
e. Implement a tax on online gambling of 1 per cent
f. Increase the carbon tax rate to €25 per tonne of CO^2 and make the commencement order on coal and turf
g. Implement the €200 car park tax originally introduced in Budget 2009 but never enacted

Proposals for Labour Taxation

49. PRSI makes an extremely small contribution to government revenue in Ireland relative to Social Security Contributions (SSCs) in other European countries. This is not sustainable in the long-term and will have to be addressed. According to Eurostat, the difference between the contribution of SSCs in Ireland and the contribution of SSCs in the EU was almost 7 per cent of GDP in 2010. Most notably the gap for employer PRSI was equivalent to 5 per cent of GDP. Surprisingly the Irish Government actually reduced PRSI for employers in the interim period despite the ongoing crisis in the public finances. TASC is proposing a third band of employer PRSI on the portion of salaries above €100,000. In addition, TASC is proposing that the additional USC on the self-employed be extended to all income earners
    a. Introduce a third band of employer's PRSI contributions at 15% charged on the portion of salaries above €100,000
    b. Extend the additional USC of 3% to all income earners, affecting the portion of salaries above €100,000

Other Proposals for Budget 2013

50. TASC proposes that additional funding of €6.5 million be provided to the revenue authorities in order to increase audit, investigation and compliance resources. The tax authorities have estimated that this level of additional funding will be sufficient to support 125 additional qualified staff and will yield an additional €100 million of revenue.

51. The ongoing process of restricting and eliminating tax expenditures should continue e.g. abolishing relief for Employee Share Ownership Trusts (ESOTs) for which there is little justification; and abolishing or restricting film relief unless it is found to successfully pass a full social cost benefit analysis. The Government should also ensure that all future Finance Bills and Budgetary Statements clearly indicate the full cost to the state in

revenue foregone of all existing and new tax expenditures. Even where there is a clear public policy case for supporting a particular group or activity through tax expenditure there still needs to be a rigorous social cost benefit analysis of the overall effect of the proposed tax expenditure. The results of this social cost benefit exercise should be transparent with the winners and losers clearly identified months in advance of the proposed tax break becoming law. The social cost benefit ratio for the tax break should also be measured against the cost benefit ratio for direct public subsidy of the group or activity. In addition, all tax breaks should have a built in sunset clause of no longer than three years which automatically triggers unless the tax break is renewed by the Dáil. An updated and transparent cost benefit analysis exercise should be undertaken in advance of the tax break's expiration with continuation of the measure made contingent upon the results of the cost benefit analysis.

52. Finally, TASC proposes that an annual equality statement should be included with Budget 2013 and with all subsequent budgets. All major budgetary decisions in the future should be informed by an equality audit of the proposed measure. The equality audit should be based upon a distributional analysis of the expected net impacts of the measure. A full distributional analysis of the effects of the cumulative budgetary impacts on the main income groups should be published annually within six months of the budget.

Medium-term Strategy

53. TASC does not support the Government's stated position that the taxation of labour should remain untouched over the next few years. Nevertheless, great care is required when designing measures in order to minimise the impact on employment. In particular, taxes on low-income workers should be avoided where possible. Introducing a third rate band for the Universal Social Charge designed to target high income earners is likely to be one of the least harmful options as well as being one of the most progressive. The medium-term budgetary strategy on the revenue side should maintain the emphasis on reducing and eventually abolishing most tax reliefs and exemptions. Broadening of the tax base should also continue and TASC is supportive of equality proofed water charges. TASC's water charging model is described in brief in Appendix A. Social solidarity and tax justice should inform budgetary decisions and greater steps are required to ensure tax fugitives make a fair contribution to the ongoing fiscal consolidation. In addition, TASC supports the introduction of a Financial Transactions Tax (FTT) at the European level in order to ensure the financial system makes a fair contribution. Finally, no specific tax policy or rate should dogmatically be considered sacrosanct or an article of faith. This

includes corporation tax. Tax policies and tax rates are means to an end. They are not an end in themselves.

Section Four – Proposed Spending Measures

Structural Adjustments

54. TASC is proposing a number of additional current spending measures in Budget 2013 which cumulatively total €200 million. TASC is concerned at many of the expenditure cuts announced in Budget 2012 and is proposing the reversal of some of these measures. Analysis by TASC indicates that children and adults living in lone parent households are amongst the most vulnerable groups in Irish society, with very high 'at risk of poverty' rates. In this context TASC is proposing that Government reverse the Budget 2012 measures restricting the one parent family payment and also reverse the reduction in the earnings disregard announced in Budget 2012. The estimated full year cost of these measures was put at €112.2 million in Budget 2012. TASC also proposes that the cuts in fuel allowance and in home help hours and home care packages made in the last year should be reversed at a cost of €63.5 million. Finally, TASC proposes an increase of €20 million in the funding for adult literacy programmes.

55. TASC is proposing an overall net reduction in current expenditure of €700 million. This total is 20 per cent of the overall €3.5 billion package of budgetary measures. Incorporating the €200 million of additional spending measures outlined above therefore necessitates €900 million of spending cuts. An estimated €400-420 million of savings is expected in 2013 through the Croke Park Agreement[38]. Further savings in net expenditure should be achieved through measures to reduce wastage as identified in the Comptroller and Auditor General's Report. Social Justice Ireland has identified €50 million in savings from using the National Procurement Service for supplies to public bodies. Additional savings should come from reducing the rates paid for consultancy, legal and accountancy fees. Savings can be achieved in the health service by gradually moving to a primary care model while increased use of generic drugs will also bring savings. Social transfers to, and services for, low income and other vulnerable groups should be immune from cuts in Budget 2013 - but beyond that no other spending items should be exempt from consideration.

56. In the medium term, TASC reiterates the view that Western European standards of public services and supports for the vulnerable can only be achieved if we as a society are willing to maintain Western European levels of public spending. Redistributive tax policies and the social programmes underpinning the welfare state mitigate the

[38] NERI (2012) *Quarterly Economic Observer*, Autumn 2012; SJI (2012) *Policy Briefing: Budget Choices*, October 2012

inequalities of risk and wealth generated by the market. Government spending can also propel economic development, not only through investments in human and physical capital but also through investments in the social cohesion required for a healthy economic and social environment. Guarantees of a basic and sufficient minimum income, of quality housing, and of free healthcare and education are all important pillars supporting this social cohesion.

Economic Recovery Fund

57. TASC proposes that the €550 million of planned cuts in public capital spending in 2013 should be cancelled. Eurostat data show that gross fixed capital formation in Ireland as a percentage of GDP will be lower than in any other EU country in 2013. This has implications for Ireland's future growth potential. Private demand in the domestic economy is likely to remain sluggish due to the deleveraging in the real economy and the weakness of the banking sector. TASC agrees with the troika view that more needs to be done to deal with the unemployment crisis and particularly the crisis of long-term unemployment.

58. In addition to the cancellation of the planned cuts in public capital spending, TASC is proposing that €4.5 billion be taken from the National Pension Reserve Fund over the next four years for targeted investment in projects that will contribute to the economy's medium-term productive capacity and contribute to the reduction of long-term structural unemployment. However, the emphasis should be on strategic investment in targeted areas rather than on short term 'stimulus' for the sake of stimulus. Given the weakness of the private domestic banking sector there is a strong argument for setting up a strategic investment bank to support target sectors of the economy and to provide seed funding and venture capital support to high potential start-ups that might otherwise be unable to attract funding. In the long-term, sustainable growth can only come about through improvements in the productive and innovative capacities of the economy. The innovative capacity of the economy can be permanently enhanced by investing in human capital through education and training (from pre-primary to tertiary levels) and by investing in certain technologies known as general purpose technologies – for example high speed broadband Internet. Addressing the deficits in Ireland's broadband infrastructure would bring generalised gains across the Irish economy and would boost growth across a variety of sectors particularly in the information economy. Another potential growth area for Ireland is in renewable energies. Ireland's position as an island in the North Atlantic means it is

particularly well suited as a location for electricity production based on wind and wave energies. Investing in these areas would help reduce Ireland's reliance on imports for its energy needs and would provide a short-term boost in terms of construction jobs.

Appendix A: TASC Water Charging Model[39]

59. TASC supports the use of volumetric water charges in a metered environment. The volumetric charge is equal to the volumetric rate per m^3 (cubic metre) set by the regulator multiplied by the volume of water consumed. There is a strong case for using increasing block tariffs (IBTs). Under the IBT system the volumetric rate per m^3 is increased above certain defined thresholds. Best practice suggests the volumetric charge should be supplemented by a recurrent fixed charge to ensure the water utility can reconcile sufficient levels of investment over the long-term with financial sustainability.

60. Provided metering is done on an individual basis (single household) rather than on a communal basis (multiple household) the ecological sustainability of this tariff structure is high and will encourage water savings. The inclusion of the fixed charge enables investments in upgrades to improve water quality. It is important however that the marginal rates in the upper blocks are sufficiently high enough to encourage conservation. This tariff structure is economically efficient provided the average volumetric charge is equal to the short-run marginal cost (SRMC) of water provision and provided total recurrent fixed charges are equal to total recurrent fixed costs. TASC suggests the following model:

    Basic Tariff Structure = *Increasing block tariff (volumetric charge) + recurrent fixed charge*
    Where:

    Average volumetric charge = Short-run marginal cost

    Recurrent fixed charge = Recurrent fixed costs

61. As argued by Dinar et al. (1997)[40] efficient water pricing mechanisms almost invariably have negative redistributional implications. These negative effects can be eliminated by incorporating differentiated income supplements, such as differentiated water allowances or direct cash transfer, to support low income and other defined groups.

62. TASC proposes that a system of differentiated income supplements should be established. Differentiated income supplements should not be confused with a universal free allowance which is an inefficient way of solving the affordability problem. The income

[39] See TASC (2012) *Water Charges: An Equality-Proofed Approach*, TASC Submission to the Consultation on the Establishment of a Public Water Utility and the Future Funding of Water Services,
[40] Dinar, A., Rosegrant, M. W., Meinzen-Dick, R. (1997) *Water Allocation Mechanisms: Principles and Examples,* World Bank Policy Research Working Paper No. 1779.

supplement can be funded through cross subsidisation by higher income groups or can be funded by direct state payments. Cross-subsidisation is likely to be more progressive than funding from general taxation. However there are likely to be major administrative complexities associated with developing a cross subsidisation model.

63. For this reason TASC recommends that income supplements in the form of household-differentiated water allowances be funded from general taxation.

Appendix B: Options for Reducing Higher Levels of Core Public Sector Pay in a Progressive Manner[41].

64. Overall, TASC is not in favour of reductions in public expenditure. On the contrary, Ireland can only aspire to Western European levels of quality public services and social transfer payments if we are willing to introduce wholesale reform of the tax system and move closer to EU norms of tax and spending. Moving in that direction would imply increasing public spending over time in line with tax increases, although this should not prevent cost control and efficiency savings being reallocated in other areas. Quality public services in other European countries show that it is possible to provide many goods and services that reduce their citizens' out-of-pocket expenses (such as free or subsidised health care, education and child care).

65. However, the continued poor growth in Ireland's GDP, relative to annual projections, combined with the continued global slump, Eurozone crisis and other external factors, do not lend themselves to optimism about Ireland's ability to close its deficit and keep the public debt under control, unless public expenditure is reduced as part of making the public finances sustainable. In this context, TASC's analysis of previous budgets suggests that a number of deleterious decisions have been taken in previous budgets when public expenditure has been cut.

66. In terms of the number of employees, an OECD report in 2008[42] showed that Ireland has a relatively small public sector. Recent measures have led to a considerable loss of public sector jobs, shrinking the service even further. As a result, it is now becoming apparent that some front-line services can no longer be provided on an efficient and quality basis due to the reduction in available staff.

67. TASC argues that social transfers to, and services for, low income and other vulnerable groups should be immune from cuts in Budget 2013. This should include secondary benefits, which are often designed to provide targeted income supplements to particularly vulnerable groups, such as lone parents, with a negative impact on women in particular.

[41] Options are estimates based on post-pension levy income. The impact of non-standard tax expenditures is excluded from the calculation. Estimated breakdown of employee numbers on a whole time equivalent basis (source: http://www.kildarestreet.com/wrans/?id=2012-07-04.603.0). The loss of taxation that would occur if the proposed reduction in core pay were applied is accounted for when attempting to measure the saving to the state. Assumes a marginal rate of taxation of 52 per cent.

[42] OECD (2008) *Ireland – Towards an Integrated Public Service*

68. Funding for a wide range of Government programmes has been 'salami sliced' in recent budgets, to the extent that it is increasingly untenable to make any more cuts to some programmes without rendering them ineffective or inefficient in their operations. The poorest and most vulnerable sections in society suffer most when public services are reduced, as they are most reliant on them to contribute towards their quality of life.

69. Far too much public expenditure cuts have reduced capital spending at a time when Ireland already has by far the lowest level of investment (fixed capital formation) in the EU. This is bad for Ireland's long-term development and could lead to Ireland's infrastructure falling behind other economies (or even further behind in cases such as broadband Internet). As such, TASC argues for increased investment to generate long-term economic assets as well as short-term and long-term employment. There is a false economy when public capital spending is cut during a recession.

70. The logical conclusion of these criticisms is that it is necessary to look at the only remaining major area of public spending, which is public sector pay and pensions. Obviously this is a highly sensitive issue, which has attracted a great deal of misinformation in media reports, especially at the outset of the crisis when a false dichotomy of public versus private was often presented. TASC's concern is to prevent public sector workers on the lowest level of pay from any further pay cuts.

71. Based on the these points, TASC concludes that the most equitable way to reduce public sector pay is to re-examine pay among that proportion of public servants earning more than the average industrial wage (c. €35,000).

72. What follows are three purely illustrative tables that indicate the level of savings that could be achieved from targeting public pay reductions at the higher pay levels, with increasingly higher proportional pay cuts being sought as pay increases. TASC is not making any specific recommendations with respect to public pay in Budget 2013, beyond acknowledging that everything should be part of the cost-benefit analysis, except social transfers to low income and vulnerable groups.

73. Table 16 illustrates a scenario of total pay savings (net of lost tax revenue) of €107 million. For example, in this scenario, public sector workers earning between €40,000 and €50,000 would see an annual post-tax loss of only €50 (less than €1 per week), whereas someone earning between €70,000 and €80,000 would lose €819 annually (less than €16 per week).

Table 16: Saving €107 million (approx) through progressive reductions in core public sector pay

	Reduction in taxable pay (%)	Reduction in annual post tax income (€)	Total Estimated State Saving (€'000)
€35,000	-	-	-
€45,000	0	52	3,594
€55,000	0.22	205	9,043
€65,000	0.73	461	13,973
€75,000	1.38	819	18,243
€85,000	2.13	1,201	12,988
€95,000	2.94	1,729	7,169
€112,000	3.79	2,881	8,767
€137,000	5.36	5,569	6,750
€175,000	8.47	10,729	27,209

74. Table 17 illustrates a scenario of €205 million in savings. For example, in this scenario, public sector workers earning between €40,000 and €50,000 would see an annual post-tax loss of €154 (less than €3 per week), whereas someone earning between €70,000 and €80,000 would lose €1,534 annually (less than €30 per week).

Table 17: Saving €205 million (approx) through progressive reductions in core public sector pay

	Reduction in taxable pay (%)	Reduction in annual post tax income (€)	Total Estimated State Saving (€'000)
€35,000	-	-	
€45,000	0.67	154	10,639
€55,000	1.82	512	22,539
€65,000	2.92	972	29,464
€75,000	4.00	1,534	34,186
€85,000	5.06	2,064	22,325
€95,000	6.32	2,880	11,942
€112,000	8.93	4,800	14,608
€137,000	14.56	9,576	11,607
€175,000	22.60	18,984	48,144

75. Table 18 illustrates a scenario of €250 million in savings. For example, in this scenario, public sector workers earning between €40,000 and €50,000 would see an annual post-tax loss of €359 (less than €7 per week), whereas someone earning between €70,000 and €80,000 would lose €1,738 annually (c. €33 per week).

Table 18: Saving €250 million (approx) through progressive reductions in core public sector pay

	Reduction in taxable pay (%)	Reduction in annual post tax income (€)	Total Estimated State Saving (€'000)
€35,000	0.57	103	6,866
€45,000	1.56	359	24,730
€55,000	2.55	716	31,537
€65,000	3.54	1,176	35,661
€75,000	4.53	1,738	38,741
€85,000	5.53	2,256	24,401
€95,000	6.74	3,072	12,738
€112,000	9.29	4,992	15,192
€137,000	14.85	9,768	11,839
€175,000	22.83	19,176	48,631

76. TASC's concern is that it is increasingly untenable and unjust for public expenditure cuts to exclude public pay and pensions, given the disproportionately negative impact on low income and vulnerable groups of cuts to welfare payments or reduction in the provision of public services. There is a risk that any future cuts to public pay will be simplistic 'across the board' percentage cuts, which would be highly disproportional and impact far worse on lower paid public servants. As such, there is a need for a realistic analysis of what would be a more progressive approach that would focus on higher pay and pensions, while preserving if not increasing the pay of lower paid public servants. TASC will be conducting further research on this topic in 2013.

Appendix C: Lone Parents – the Cumulative Effects of Social Protection Measures

77. The Department of Social Protection has been examining the feasibility of introducing a system of *Single Social Assistance Payment for People of Working Age*, for a number of years.[43] This would see a range of social assistance payments replaced with just one. In other words, recipients who currently benefit from a number of income supports would be moved onto Jobseekers Allowance. This loss of income support would be supplemented by service provision, childcare for example. The aim of these changes would be to support the individual to fully participate in the labour market, through the removal of possible 'poverty traps' and better service supports.

78. While anti-poverty groups are broadly supportive of the idea,[44] they caution that the services and supports required for a successful transition to such a system are far from being available. Without policy changes and increased service provision, there will be a large loss of income for those depending on a second payment e.g. while on Community Employment.[45]

79. This loss of income should not occur in the absence of its replacement with adequate services which support people in accessing employment, or else they will lead to increased deprivation and increase the barriers to work for certain groups. The move to a single payment system is seen as a labour activation measure, but it must also be acknowledged that the number of job-seekers far outweighs the number of vacancies.

80. Many secondary benefits are designed to reflect the fact that there are groups of people for whom accessing work is more difficult. The barriers to accessing meaningful work are both visible and invisible by those who do not face them. These groups have specific needs which must be addressed through the development of appropriate policies and supports. One such group is lone parents. Lone parents often face challenges that other people of working age may not face or understand. The general lack of proper affordable childcare facilities impacts on most parents, but the negative impact is much more acute for lone parents.

81. Much of the debate on the single payment scheme has focused on the proposal to move the lone parent to job-seekers allowance when his/her youngest child has reached the age

[43] Department of Social Protection (2010), *Report on the desirability and feasibility of introducing a single social assistance payment for people of working age* http://www.welfare.ie/EN/Policy/CorporatePublications/Finance/exp_rev/Pages/WorkingAgeReport.aspx
[44] European Anti-Poverty network (2012), 'Submission to the Committee on Education and Social Protection'
[45] Department of Social Protection(2010), *Report on the desirability and feasibility of introducing a single social assistance payment for people of working age*

of seven starting in 2015.[46] This means that the Government has less than three years to establish the services and systems needed to support these families before parents who are not in full-time employment are forced onto job-seekers allowance and will see their family income cut. Without adequate childcare services and other supports, many lone parents will find it difficult to secure meaningful full-time employment and those who work part-time will be forced to give up their positions as they pursue full-time work.

82. One parent families are already faced with numerous challenges which do not apply to two parent families and the vulnerable position of these families can be seen in the fact that according to EU SILC data for Ireland, "lone parent households experienced the highest rate of deprivation in 2010 at 49.8 per cent."[47] Of those lone parents who receive social protection payments, between 48 and 60 per cent are in employment, education or training[48]. In a study of Budget 2011, TASC found that

> *The category most negatively affected by the measured Budget 2011 changes is the 'single with children' group. This category has by far the lowest average income of all the categories studied and has a very high ratio of females (73 per cent) to males (27 per cent) . . . . The disproportionate impact on the lowest income group, i.e. the single with children group, is partially explained by the disproportionate cuts to child benefit and the one parent family credit. These transfers are particularly important for individuals within this group, and child benefit is important for women more generally. Further cuts to these transfers will exacerbate the level of income inequality between genders and put growing numbers of adults and children in this category at risk of poverty*.[49]

83. Budget 2012 introduced a further range of measures which particularly affects this group. For example, the reduction over five years of the earnings disregard from €146.50 to €60 per week for new and existing claimants, and the discontinuation for new and existing claimants of the entitlement to two qualified child increases where the parent is partaking in a community employment scheme. These measures, when introduced, were designed to support lone parents to return to work and to remain in work.

84. Reductions in other secondary benefits (e.g. fuel allowance, back to school clothing and footwear allowance, qualified child increases, also introduced in Budget 2012) will affect many lone parents.

85. The effect on individual families and specific groups from cuts in secondary benefits and changes in eligibility rules may not be as apparent to many people as a cut in core

[46] Social Welfare & Pensions Bill 2012
[47] http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2010/silc_2010.pdf
[48] OPEN, http://oneparent.ie/7-is-too-young (accessed 20 October 2012)
[49] TASC (2011) *Winners and Losers Equality lessons for Budget 2012*, page 37

benefits (such as job seekers allowance), however, the cumulative effect of all of these changes can lead to a major cut in income for many people, including lone parents.

86. TASC is therefore calling for a halt to the reduction in social protection payments and supports, including secondary benefits and cuts emanating from eligibility changes. TASC is also calling for a reversal of the Budget 2012 measures restricting the one parent family payment, reducing the earnings disregard, the discontinuation for new and existing claimants the entitlement to two qualified child increases where the parent is partaking in a community employment scheme. The estimated full year cost of these measures was put at €112.2 million in Budget 2012.

87. The following illustrative examples show that some lone parent families lost significant proportions of their incomes due to the measures brought in Budget 2012.[50]

Table 19: Examples of the effects of Budget 2012 on lone parents and their families

Lone parent doing a VEC course with a three year old child

2011			**2012**		
	Frequency of payments	**Annual total**		**Frequency of payments**	**Annual total**
One parent family payment	€188 x 52	€9,776.00	One parent family payment	€188 x 52	€9,776.00
Qualified Child allowance	€29.80 x 52	€1,549.60	Qualified Child allowance	€29.80 x 52	€1,549.60
Fuel allowance	€23.90 x 32	€764.80	Fuel allowance	€20.00 x 26	€520.00
Back to school clothing and footwear allowance	€200	€200.00	Back to school clothing and footwear allowance[51]	N/A	-
Child Benefit	€140 x 12	€1,680.00	Child Benefit	€140 x 12	€1,680.00
Total Income		**€13,970.40**	**Total Income**		**€13,525.60**
Deductions			**Deductions**		
Rent Contribution	€24 x 52	€1,248.00	Rent Contribution[52]	€30 x 52	€1,560.00
Child care		€ -	Child care[53]	€25x 32	€800.00
Total Deductions		**€1,248.00**	**Total Deductions**		**€2,360.00**
Net Income		**€12,722.40**	**Net Income**		**€11,165.60**
		Loss of income	**€1,556.80 12.24%**		

[50] TASC would like to thank SPARK for its assistance in compiling the illustrative examples
[51] This was discontinued for children aged two and three in Budget 2012
[52] Contribution towards rent for those on rent supplement was increased by €6 a week.
[53] Contribution of €25 per week for those doing a VEC course and availing of VEC provided child care, introduced in 2012

Table 20: Examples of the effects of Budget 2012 on lone parents and their families

Lone parent doing a Community Employment (CE) scheme with three children under the age of 12

Payment	**2011** Frequency of payments	Annual total	**2012 existing CE workers**		**2012 new CE workers** Frequency of payments	Annual total
One parent family payment	€188 x 52	€9,776.00	€188 x 52	€9,776.00	€188 x 5	€9,776.00
Qualified Child allowance	€29.80 x 3 x 52	€4,648.80	€29.80 x 3 x 52	€4,648.80	€29.80 x 3 x 52	€4,648.80
Fuel allowance[54]	€23.90 x 32	€764.80	€20 x 26	€520.00	€20 x 26	€520.00
Back to school clothing and footwear allowance	€200 x 3	€600.00	€150 x 3	€450.00	€150 x 3	€450.00
Child Benefit	€140 x 12 x 2	€3,360.00	€140 x 12 x 2	€3,360.00	€140 x 12 x 2	€3,360.00
Child Benefit 3rd child[55]	€167 x 12	€2,004.00	€148 x 12	€1,776.00	€148 x 12	€1,776.00
Community Employment Payment[56]	€188 x 52	€9,776.00	€188 x 52	€9,776.00	€20 x 52	€1,040.00
Community Employment Qualified Child[57]	€29.80 x 3 x 52	€4,648.80	Not Paid	€ -	Not Paid	€ -
Total Income		**€35,578.40**		**€30,306.80**		**€21,570.80**
Deductions	**2011** Frequency of deductions	Annual total	**2012 existing CE workers**		**2012 new CE workers** Frequency of deductions	Annual total
Rent Contribution	€24 x 52	€1,248.00	€30 x 52	€1,560.00	€30 x 52	€1,560.00
Child care	€180 x 52	€9,360.00	€180 x 52	€9,360.00	€180 x 52	€9,360.00
Total Deductions		**€10,608.00**		**€10,920.00**		**€10,920.00**
Net Income		**€24,970.40**	**-**	**€19,386.80**	**-**	**€10,650.80**
			Loss of income	**€5,583.60**	**Income less than existing claimant in 2011**	**€14,319.60**
				22.36%		**57.35%**

[54] Fuel allowance for smokeless fuel (€23.90 a week in 2011) was abolished in September 2011 and replace with the fuel allowance for non-smokeless fuel at €20 per week.
[55] Child benefit for the 3rd child was reduced to €148 in Budget 2012
[56] Abolished for new claimants in 2012 and replaced with €20 top-up
[57] The payment for those on CE was abolished where they were claiming under One Parent Payment

Appendix D: Social Transfers for the Rich - Tax Injustice

88. In September 2012, TASC, in conjunction with Christian Aid, published a paper (*Tax Injustice: Following the Tax Trail*) illustrating the harm caused by tax dodging and the use of inefficient tax breaks.

89. Aggressive tax avoidance and tax evasion are anti-social acts which strike at a state's ability to collect and allocate resources to meet the needs of its people. When individuals or companies avoid or evade paying their fair share of tax, they undermine the state's capacity to provide for schools, roads, hospitals and other public services. They also place an extra burden on those citizens and companies who do pay their fair share of tax.

90. Tax competition, through the construction of complex tax rules and tax breaks which allow companies and wealthy individuals to decrease their tax bills, can also hinder the state's capacity to develop its economy and pay for much needed public services. While many of these rules and tax breaks were introduced by Governments' to achieve a particular policy outcome, that does not mean that they are always used in the manner in which they were intended, and they are often used merely to avoid meeting tax liabilities. The use of transfer price fixing by multinational companies, for example, allows a company to benefit from the tax rates and reliefs available in different jurisdictions by transferring goods and services between different parts of company. Countries in the Global South are particularly vulnerable to loss of revenue from this type of mechanism.

91. Although Ireland's 12.5 per cent corporate tax rate is seen as the cornerstone of our taxation regime, membership of the EU, including its single market, and an extensive catalogue of tax treaty agreements, are important reasons why Ireland is seen as a very attractive destination for foreign investment.

92. Double tax agreements are usually negotiated on a bilateral basis, and cover primary and secondary taxation rights. Establishing double tax arrangements requires officials to possess an intimate knowledge of the other jurisdiction's tax regime. The technical nature of the discussions, and the potentially large sums of money at stake, often result in protracted and complex negotiations. Jurisdictions in the Global North are more likely to have tax authorities with the experience and technical knowledge required to bring these negotiations to a successful conclusion.

93. From a corporation's perspective, one of the key advantages of these treaties is that they establish a regulatory framework that facilitates companies' efforts to develop a tax position that is likely to be sustained in the event of a challenge from the relevant tax

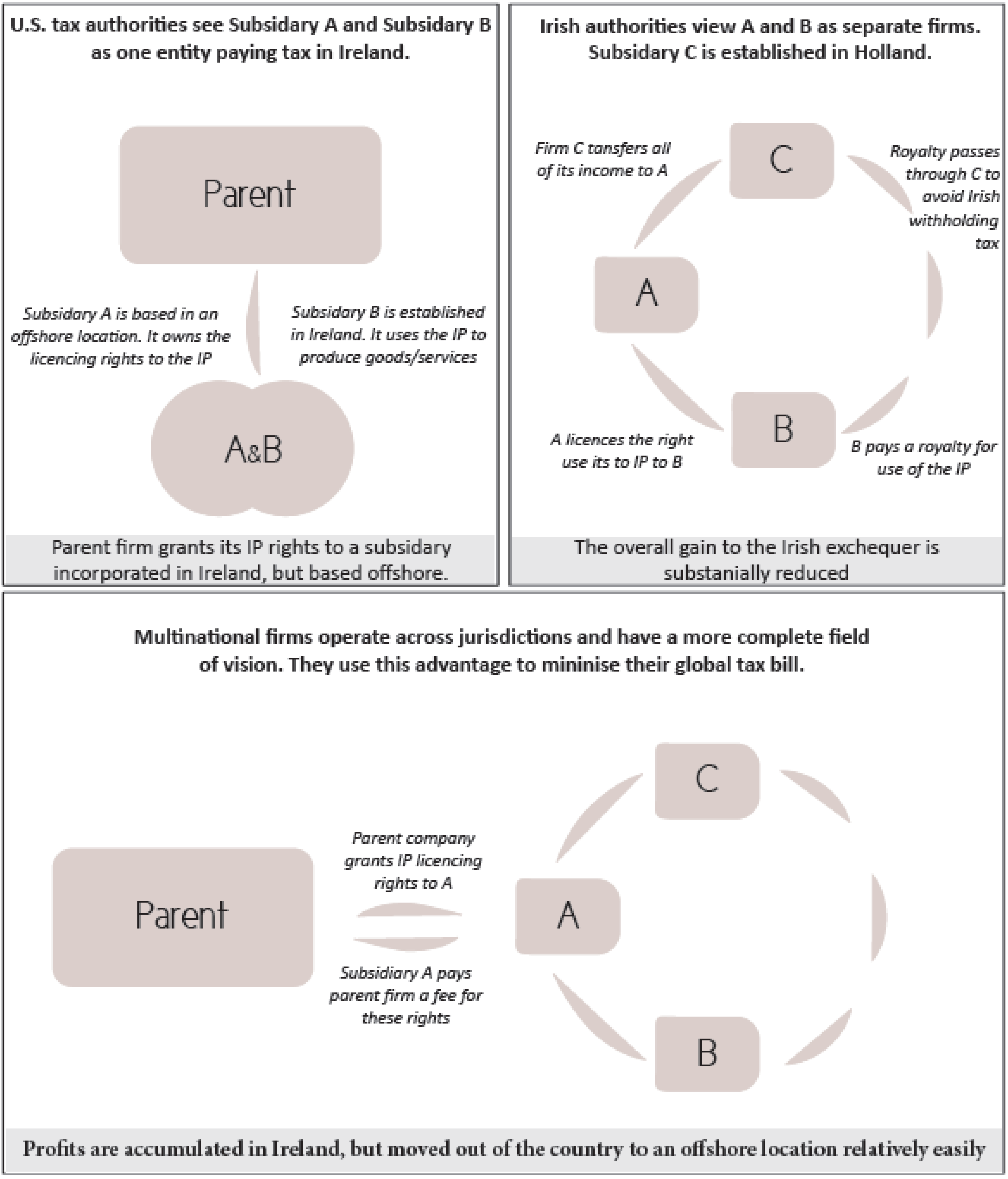
authorities. In addition, tax treaties remove the risk of a government unexpectedly introducing tariffs that increases the effective corporate tax rate. In addition to providing a more stable business environment, Killian (2009)[58] notes that countries with such treaties can be used to channel money between jurisdictions in an effort to minimise a firm's global tax bill.

94. Ireland has cultivated a broad network of tax treaties with over sixty different jurisdictions. When combined with a low corporate tax rate, this network of treaties makes Ireland a very attractive location for foreign investors, even when compared to offshore locations such as the Cayman Islands. Ireland's double tax agreement with the US is particularly important, and has encouraged numerous US firms to use Ireland as a location from which to manage their operations in Europe and the Middle East. Foreign tax risks are minimised by ensuring the hub is centrally managed and controlled from Ireland. Activities leading to an overseas tax presence are strictly limited. The 12.5 per cent tax rate can also be reduced through the use of foreign tax credits, Ireland's intellectual property regime, and research and development credits.

95. Membership of the EU has burnished Ireland's reputation as a legitimate, onshore location for a US company to base its international operations and engage in effective tax management. From a tax planning perspective, membership of the EU can aid a transnational company in its efforts to minimise its overall tax liability

[58] Killian, S. (2009) Driving the Getaway Car? Ireland, Tax and Development, Debt and Development Coalition PDF e-booklet, http://debtireland.org/download/pdf/driving_the_getaway.pdf

Figure 1: The Double Irish and the Dutch Sandwich



Source: TASC (2012) *Tax Injustice, Following the Tax Trail*

96. In addition to attracting multinational investment to Ireland, the current tax regime has resulted in a large number of hedge funds being established in the state. According to the most recent figures, Ireland is currently home to around 40 per cent of the world's hedge fund assets[59]. The value of attracting this type of inward investment in open to question;

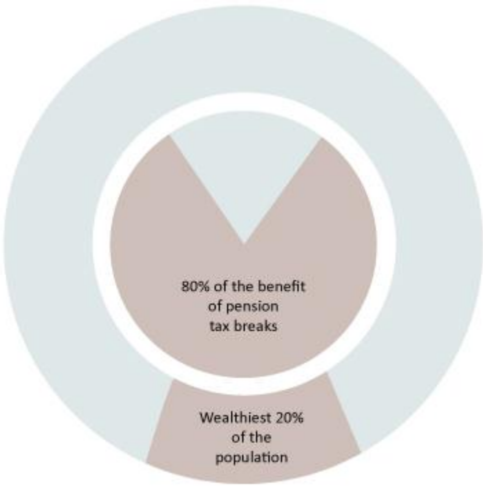
[59] www.irishfunds.ie

for instance, Reinhart and Rogoff [60] noted that the volatility these types of funds create in financial markets often leads to banking crises.

97. As discussed in section three, many tax breaks exacerbate inequality in the long term. For example, TASC has previously noted the inequality in the tax relief on retirement savings.[61] A 2009 ESRI analysis showed that 80 per cent of the benefit went to the highest 20 per cent of earners in Ireland. The IMF's September 2012 report on Ireland states:

> *The current system subsidizes . . . beyond the incentives inherent in an EET system*[62]*. These subsidies are poorly targeted, with richer taxpayers (who contribute more toward private pensions) receiving a substantial share of the subsidies.*[63]

Figure 2: The Pension Pie



Source: ESRI (2009) Pensions Policy, New Evidence on Key Issues; TASC (2012) *Tax Injustice, Following the Tax Trail*

98. The OECD recognises the potential problems posed by tax expenditures:

> *The use of tax expenditures by governments is pervasive and growing. At a time when many government budgets are threatened by population ageing and adverse cyclical developments, there is a pressing need to avoid inefficient government programmes, some of which may utilise tax expenditures.*[64]

99. When a Government creates a tax break, it is effectively spending money. That means that the lost revenue must be made up either through increasing other taxes or through

[60] Reinhart, C. and K. Rogoff (2009) This Time is Different: Eight Centuries of Financial Folly. New Jersey: Princeton University Press
[61] TASC (2010), Making Pensions Work for People, TASC Policy Update http://www.tascnet.ie/upload/file/Tasc%20Pension%20Update%20220110%20Final.pdf
[62] EET is an acronym for **exempt** contributions, **exempt** fund growth and **taxable** benefits
[63] IMF (2012), *Ireland: Selected Issues, County Report* 12/265, page 46
[64] OECD (2010) *Tax Expenditures in EU Countries*, page 3

cuts in spending. Cuts in public spending means that there is less money to spend on public services. Those who depend most on public services, children and older people for example will feel the effects of those cuts more acutely than other groups in society. It is also the case that not all citizens can avail of tax breaks and/or get the same level of return. In particular, pension tax relief, which is given at the standard and marginal rate, benefits higher earners more than lower earners. That assumes that the person has the money to invest in the first place. Availing of tax breaks can be complicated and requires funds for investment, money and tax advice that is not available for all citizens. Tax breaks are also an inefficient policy tool and can have unintended consequences. For example, the use of property tax breaks over the past decade has contributed to environmentally and socially damaging development in Ireland and an oversupply of houses and hotel rooms. In general tax breaks benefit the wealthier in our society and can increase inequality, globally and locally. When a Government introduces a tax break it is making a choice, the choice to prioritise one section/interest of society over another; there are always winners and losers.