

TASC & FEPS

Innovative & Destructive Taxation Policies in Ireland

Paul Sweeney

Chair, TASC Economists' Network

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Govts used Tax Innovatively & Destructively

- Since Independence Irish first mover tax advantage.
- But also inappropriate tax policies have contributed to 3 of 5 major Crises (O'Grada's 5 crises).
- 1st: 1950s - high tariffs - slow to open up economy.
- 2nd: 1977 Election cut taxes, boost spending
- 3rd: Banking but also tax induced crisis
- Many politicians: "Low Corporation Tax (CT) is the cornerstone of Ireland's industrial policy"
- Is it?

Is it the End of Tax Wars?

- *As CT rates have fallen from 35% in 1996 to under 23% in 2015, is race towards bottom nearly over?*
- *No says Macron, May et al, while complaining about Ireland*
- *Tax Harmonisation or Coordination?*
- *CCCTB, BEPS*
- *Applegate & Luxileaks*
- *Anti-Globalisation/populism*
- *Fiscal rules – but is S&GP fit?*
- *Was tax “the cornerstone” of Ireland’s success*

1st Fiscal Crisis – Slow to open up in 1950s

- Not cautious but nationalist, self-sufficiency policy dominated.
- High tariffs (taxes on trade)- effective rates averaged 85% in 1966
- Industrial decline, short production runs, shoddy & expensive goods
- 409,000 net emigration in 1950s
- Policy was contested by Lemass et al within FF
- Whittaker “greatest Irishman of 20th C”, but the real issue was the costly delay
- Tax innovations began 1957/8 – 50% then 100% CT write off on exports
- Shannon Tax Free Zone 1958 & Abolition of Control of Manufacturers Act 1956
- CIO in early 1960s, IDA established 1949 for indigenous exporters, but “encouragement of external investment Act” in 1958

2nd Crisis: FF tax cuts & spending 1977 Election

- FF “pork barrel” politics loved by Irish voters – 20 seat majority!
- Abolished rates on houses (one cause of today’s housing crisis), car taxes, & big spending stimulus – funded by huge borrowing.
- Worked for a few years: then unemployment doubled 1980/83 & soared to 16%, & growth turned negative in early 1980s
- Nat. debt up - 75% GNP to peak 125% in 1987.
- Ireland's standard of living was still only at 60% of EU in early 1980s – where was FDI boost?

3rd Crisis: Banking but also Tax-driven

- Began in 1998 with Charlie McCreevy as Finance Minister in FF/PD govt
- Banking crisis but tax-shifting, tax-cutting and tax expenditures played decisive roles in its extent.
- Tax Shifting: Direct taxes on incomes and profits & on capital cut to rely on revenue from indirect VAT etc. in booming construction /related sector.
- Consumption revenue up 70% 2001-07 but fell by 25% 2010
- Income tax revenue up 51% 2001-07

3rd Crisis: Banking but also tax driven cont.

- The real bubble began in 2002 with FF/PD govt *“if I have it, I spend it”* neo-liberal policies of de-regulation / labour standards/ banking/ etc
- Tax cuts for all while spending boosted,
- Financed by booming tax & credit fueled economy, esp. construction.
- Troika MOU signed 1 Dec 2010 – “austerity enshrined”.
- Irish people punished because they voted for 2 /3? Govts which implemented inappropriate tax policies since 1922?

Tax Expenditures and Exempt Income

Tax Break of Expenditures boosted by Govts. especially in property-related areas

- They Have a distortionary impact of many though not all, tax expenditures.
- Have evolved in haphazard ways under pressure from lobbyists.
- Tax expenditures are very costly for countries due to lost taxes and
- Tax expenditures are inefficient in the main.
- Tax expenditures are difficult to quantify in advance.
- Tax expenditures are subsidies and have anti-competitive effects.
- Tax expenditures have unintended consequences.
 - A classic example of the unintended consequences of tax expenditures was Section 84 Leasing in Ireland in the 1980s which was intended to close a tax loophole
 - Another major un-intended consequence of these schemes has been to encourage aggressive tax planning by a number of tax advisors/consultants.
- Tax expenditures should have a limited time span. They are very difficult to terminate.
- The “diffusion effect” is not understood ie spread geographically & other to sectors.
- Tax expenditures can be very regressive.

The Irish State could have directly built housing like this in Aarhus Denmark years ago if they were not obsessed in monetising housing & tax breaks as Nirvana.



What Lies Ahead?

- Tax Harmonisation or Coordination?
- Will Applegate /Luxileaks / Media outrage on industrial-scale tax avoidance by MNCs lead to real change?
- BEPs is a good start
- But we need a Eurotax to tackle tax evasion, avoidance and havens in EU, staffed by revenue from all MS
- We saw populism of politicians; so do we need technocratic rules to constrain them?
- Yes but not the Stability & Growth Pact – it is “austerity enshrined” in bailout countries and bad for all peoples.
- Unless “Social Europe” is integrated into a reformed Pact, with focus on employment and inequality, then Europe will fail.

Ireland's Success- More than Tax

- Low CT is not the “cornerstone of industrial policy”.
- It played a role with first-mover advantage. Played out!
- Thankfully as Tax Wars are ending, as rates fall so low.
- But reality of success is more complex: –
- Membership of EU esp. the Single Market in 1992 was real catalyst in Celtic Tiger's take-off – a market of 508 million (The Brits are leaving the world's biggest market!)
- EU funds, communications, state institutions like IDA Ireland, good institutions, rule of law, stable politics, English, education, demographic dividend, social partnership and integrated policy making etc. all contributed
- So other factors will continue to contribute to Ireland's future.

Conclusion

- Tax played a big bad role in 3 of the 5 crises since 1922
- Tax helped attract FDI but was not the “cornerstone”.
- Other factors helped ...if its only tax then we would be in trouble.
- Near end of line on Tax Wars with other states:-
 - rates down from 35% in 1996 to 23 in 2015 – how far more?
 - Winner has been profitable tax-avoiding MNCs.
 - Apple & Luxileaks
 - Public Anger & BEPs
 - Eurotax, CCTB, EU tax Coordination (not harmonisation)
- Fiscal Rules but not S&GP. Must be reformed