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Committee on Budgetary Oversight

Final Pre-Budget Report

September 2018

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Foreword

The Budgetary Oversight Committee was established on the 21st July 2016 to improve the level of budget scrutiny by parliament.

As part of its examination of the context in which Budget 2019 is being prepared the Committee adopted an Interim pre-Budget report which was published in July. This is the Committee's final pre-budget report which should be read in conjunction with this Interim report.

This report has been prepared following a review of the extensive suite of pre-budget information published over the summer months by the Department of Finance and the Department of Public Expenditure Reform. A significant amount of analysis has also separately been published by the Parliamentary Budget Office.

Further stakeholder consultation meetings were also held in September in relation to gender budgeting, business concerns about Brexit, fiscal risk and expenditure trends.

I would like to thank the Minister for Finance and Public Expenditure and Reform and his officials for responding to Committee requests for financial information, which enhances the budget scrutiny process. I would also like to thank each of the stakeholder groups and witnesses who attended the Committee meetings: Chambers Ireland, the Construction Industry Federation, Retail Excellence and the ESRI.

The Committee wishes to acknowledge briefings received from the Parliamentary Budget Office, and the work of the Committee Secretariat in preparing this report.

Colm Brophy T.D.

Chair

Introduction

Approach to Budget 2019

The Committee commenced its scrutiny process earlier in the year (March – July 2018). In line with its Work Programme, the Committee published an Interim Pre-Budget Report in July, and has now produced a Final Report (this report) in September 2018. This approach allows the Committee to build on the pre-budget scrutiny work carried out for Budget 2018.

Final Pre-Budget 2019 report: Structure

The structure of the report is set out as follows:

- **Section One: Risk.** This section provides updated analysis of Ireland's economic performance, and risks to the economy.
- **Section Two: Revenue and Expenditure options.** This section reviews a selection of key tax policy options arising from analysis of the Tax Strategy Group Papers; it examines how to improve budget scrutiny of Tax Expenditures in the context of budget decisions.
- **Section Three: Review of Budget Documents.** This section assesses the Mid-Year Expenditure Review and Spending Review from a budget scrutiny perspective.
- **Section Four: Structural Issues.** This section examines possible approaches to carrying out gender budget analysis, and offers a possible framework for climate proofing future budgets.
- **Section Five: Transparency.** This section makes a number of recommendations on how to enhance the budget scrutiny process, by making information more accessible for policy-makers.
- **Section Six: Stakeholders.** The final section sets out the conclusions reached by the Committee based on written and oral evidence put forward by stakeholders to the Committee.

Section One: Economic performance and Risks

Economic performance

The Committee notes that GDP grew by 7.2% in 2017 and the CSO's National Accounts released in September 2018 show economic output figures grew in Q2 2018. The European Commission has estimated that Ireland's GDP will grow by 5.7% in 2018. Domestic demand is strong and unemployment has reached 5.6% which is the lowest recorded since April 2008.

The CSO's *National Accounts* released in July 2018 show economic output figures dropping slightly in Q1 2018. GDP and GNP grew by 2.5% and 0.7% respectively between Q1 2018 and Q2 2018. This comes after a quarterly decline in Q1 2018 over Q4 2017. Modified domestic demand, which gives a more accurate picture of the performance of the domestic economy, grew by 0.4% in Q2 2018. The Committee notes that this is in line with other indicators such as employment growth and personal consumption.

In summary, even stripping out the distortionary effect of MNC activity, the Committee is of the opinion that most indicators point to Ireland's strong economic performance in 2017, and suggest that this is expected to continue in 2018. The Government has forecast economic growth of 4.0%[1] in 2019 and this has been endorsed by the Irish Fiscal Advisory Council.

Risks to the economy

In spite of these positive trends, the Committee is aware that the Irish economy also faces a number of potential downside risks.

Brexit

One of these is a "hard" or "no deal" Brexit. Either of these scenarios could result in significant barriers to trade between Ireland and the UK. Given that the UK is Ireland's single largest trading partner[2] this would have significant implications for Ireland's economic growth, especially in the short-term.

[1] Stability Programme Update 2018,.
[2] https://www.cso.ie/en/media/csoie/releasespublications/documents/externaltrade/2018/trade_may2018.pdf

In the event that a "soft" Brexit is agreed, and a trade agreement is put in place, this will still result in new barriers to trade, with a negative impact on Irish economic growth.

Regardless of the type of Brexit deal that is agreed, border and rural regions are likely to bear a disproportionate negative impact. As a result; regional inequalities could worsen over time. The Committee is of the view that any changes to tax policy should take account of possible revenue leakages arising from cross-border trade.

Contingency planning to deal with various Brexit scenarios has been underway for some time. However, the Committee notes that the economic data that currently underpins Budget 2019 does not include a *'no deal'* Brexit scenario. The Committee does not believe that the Tax Strategy Group Paper which deals with Brexit gives a sufficient level of detail to allow the Committee to fully assess the budget impact of a hard Brexit.

Oil Prices

The Irish economy is a large net importer of fuel and its energy dependence means that fluctuations in oil prices can impact on consumer demand and act as a drag on the economy. Oil prices fell by approximately 60% between 2013 and 2016, aiding Ireland's recovery from the financial crisis. However, since 2016, there has been an increase in oil prices from approximately $43 per barrel to over $70 per barrel, and while they are far from peak levels, it is nevertheless a trend that should be closely monitored.

The Committee notes that Department of Finance estimates of future oil prices used in Budget 2018 were based on projected oil prices of $53 in 2018 and $54 thereafter to 2021. The SPU forecasts updated the 2018 estimate to $65 per barrel. However, actual oil prices in 2018 have averaged $71.19 per barrel.[3] Therefore, the Committee notes that current budget projections appear to use oil price data that are below actual market levels.

[3] All oil price calculations based on https://fred.stlouisfed.org/series/DCOILBRENTEU.

Global Trade

Ireland, because of its open and highly globalised economy would be highly exposed to the adverse effects of any possible trade war that results from tariff policy changes. The Committee notes research from the IMF which concluded that any tariffs levied by the US on China would do more damage to the US, and other Western economies, than to China. For this reason concerns have been raised over protectionist trade policies adopted by the United States. Changes to US tariff policies have already resulted in the implementation of retaliatory tariffs by Canada and the European Union. EU/US trade relations are volatile in a historical context.

Domestic Risks

While there are a number of external risks that the Government should be aware of and should continue to monitor the Committee notes that to a large extent these risks are outside the control of policy makers. However it should be noted that there are a number of domestic risks that have already begun to negatively impact on future growth and competitiveness.

The main domestic risks are as follows:

- Housing: rising housing costs and homelessness figures show that this policy area is a key challenge.
- Sustainable public finances: The public debt forecast for 2018 is 97%[4] and is a reminder of the risk if sustainable fiscal policies are not pursued.
- Climate change issues and the need to urgently move to a low carbon economy
- Investment in Infrastructure: While capital investment has significantly increased, further investment is needed as infrastructure bottlenecks are beginning to affect competitiveness.
- Over-concentration of Corporation Tax
- Labour Shortages in key sectors of the economy

In looking at Ireland's macroeconomic position in 2018 similarities can be drawn with the economic outlook in 2008. It is important at this juncture that careful consideration be given to policy measures for Budget 2019 in order to avoid the policy mistakes of the past.

[4]Using modified GNI*.

Committee Recommendations:

- The Government should be cautious when setting fiscal policy in 2019, due to the possibility of a 'no deal' Brexit outcome. The Committee recommends that the Department of Finance consider publishing details of its contingency plans for a 'no deal' Brexit scenario that sets out possible fiscal changes that will be required if such a scenario arises.
- The Committee recommends that the Government consider using fiscal policy, beginning in 2019, to decrease Ireland's dependence on imported oil and gas, with due regard to compensate people in receipt of State income supports.

Section Two: Revenue and Expenditure Options

Summary of TSG Papers

VAT Issues

Revenue from VAT represents an important source of Exchequer funding. The Committee notes that VAT yield amounted to €13.3 billion and accounted for 26% of the total tax take in 2017 and that in Ireland the retail and wholesale trade sectors are the largest contributors to VAT revenue make up 45% of the total VAT yield.

The VAT system including rates is governed by European Union rules. In this regard, the Committee notes that Ireland is restricted in the VAT policies that government can implement. For example a minimum standard rate of 15% must be applied and only two reduced rates are allowed. The reduced rates must be 5% or more and can only be applied to a certain amount of goods and services.

Research has shown that while Ireland's standard VAT rate (23%) is among the highest in Europe, VAT as a % of total tax revenue is lower than the European average.[5] This suggests that Ireland does not apply the standard rate as widely as other European countries. Ireland also has more exemptions and lower rates than most other EU countries.[6]

Proposed VAT reforms at EU level include potentially changing how countries can set rates. Most of these proposals have yet to progress. However, the Committee notes that Brexit will mean that the UK will become a third country for VAT purposes: this could have significant implications, including potentially leading to a higher administrative burden on Irish firms, a loss of competitiveness and increased opportunity for fraud.

[5] PBO Briefing Paper 7 of 2018. Value Added Tax: Overview and Issues for Budget 2019
[6] PBO Briefing Paper 7 of 2018. Value Added Tax: Overview and Issues for Budget 2019

Policy Options

From an *economic* point of view, VAT is seen as one of the least 'harmful' taxes[7]. Implementing changes to the VAT system, such as increasing the 0% rate to a higher rate, or streamlining VAT rates could serve a dual purpose of broadening the tax base and increasing Exchequer funding.

The Committee notes that the Tax Strategy Group[8] paper on VAT shows that:

- Increasing the 0% rate to 5% could increase yield by just over €500 million per annum
- Increasing VAT on services from the 9% rate to 13.5% would raise €527 million per annum.

The 9% VAT Rate for Tourism and the Hospitality Sector

The Committee considered the option to revert from 9% back to a 13.5% VAT rate for the tourism and hospitality sector. During stakeholder meetings, the Committee heard evidence from various groups regarding both the benefits and disadvantages of retaining the 9% rate. Views ranged from groups such as ICTU and Social Justice Ireland supporting higher VAT rates to invest revenues into services and infrastructure; other stakeholders including Dublin Chambers, Chambers Ireland and ISME support its retention, expressing concern about the threat posed to the hospitality sector by Brexit.

Subsequently, the Department of Finance published a review of the 9% VAT rate which states that its abolition would yield revenue of approximately €500 million per annum.

The review also found some evidence to suggest that the rate reduction may have had a short-term positive impact on jobs. However, in the long run, it is not possible to conclusively separate the impact of the rate reduction from broader improvements in the economic environment. The review stated that the 9% rate was regressive, as the services to which it applies are discretionary in nature and are disproportionality purchased by higher-income groups.

The Committee notes that the review concludes by stating that:

> *"The 9% VAT rate has cost approximately €2.6 billion since its introduction and its limited benefits at present indicate substantial levels of deadweight*".

[7] PBO Note 17 of 2018 *Taxation and the economy*
[8] Tax Strategy Group papers.

The Committee notes that there are a number of policy options regarding the 9% VAT rate on hospitality and tourism. These options are as follows:

The Committee notes that the Tax Strategy Group[9] papers on VAT shows that:

- The 9% rate be increased to 13.5% for all services
- The 9% be retained i.e. no change
- The 9% be retained for selected services (e.g. newspapers, museums, and hairdressers, restaurant services, etc.) and not others (accommodation services)
- The the 9% rate be gradually increased over time to 13.5%

The Committee is of the view that any decisions regarding changes to the 9% VAT rate for hospitality and tourism should take into account Value for Money assessment of the current rate, the impact of Brexit, and regional variances.

Alcohol

The excise rates on alcohol were last increased in in 2014. See below table for context of excise price increases, and their impact on representative alcoholic products.

Table 1: Excise on representative alcoholic product by year of rate change.

Year of excise rate change	Excise on Beer (4.3% ABV Pint)	Excise on Cider (4.5% ABV Pint)	Excise on Wine (12.5% ABV bottle)	Excise on Spirits (40% ABV glass)
2003	€0.49	€0.47	€2.05	€0.55
2009	€0.49	€0.47	€2.46	€0.55
2010	€0.38	€0.37	€1.97	€0.44
2013	€0.47	€0.46	€2.78	€0.52
2014	€0.55	€0.54	€3.19	€0.60

Source: TSG Paper on General Excise 2018.

Table 1 (above) indicates that up until 2014, excise rates on alcohol were significantly increased, but since then they have been effectively frozen.

[9] Tax Strategy Group papers.

Upcoming changes and policy options:

The Public Health (Alcohol) Bill was approved by Government in December 2015. This Bill proposes health labelling of alcohol products, minimum unit pricing, the regulation of alcohol marketing and advertising, and enforcement powers for environmental health officers. The proposed legislation will apply a legal minimum price for the sale of drinks according to their alcohol content (10 cent per gram of alcohol). The TSG paper is silent on the potential behaviour effects and consequential revenue effects of MUP. The Committee notes that alternative models published by the Department of Health, using the Sheffield Alcohol Policy model project a slight reduction in Exchequer revenue due to implementation of MUP.[10]

In terms of options, the TSG paper presents a Table of potential increases and the revenue yield to the exchequer. Table 2 gives an indication of revenue raised (or foregone) based on various rate increases. However, it assumes no change in consumer behaviour, so the larger the proposed rate, the less accurate the estimated revenue change is likely to be.

Table 2: Potential excise rate increases and respective impact on the yield to the exchequer.

	1c	**2c**	**3c**	**4c**	**5c**	**10c**	**15c**	**20c**
Beer (per pint)	€6.8m	€13.6m	€20.4m	€27.1m	€33.9m	€67.4m	€100.4m	€133.1m
Spirits (1/2 glass)	€4.0m	€8.0m	€12.0m	€15.9m	€19.8m	€38.9m	€57.4m	€75.1m
Cider (per pint)	€1.0m	€1.9m	€2.9m	€3.9m	€4.9m	€9.7m	€14.4m	€19.1m
	5c	**10c**	**15c**	**20c**	**25c**	**50c**	**75c**	**100c**
Wine (per bottle)	€3.2m	€6.3m	€9.5m	€12.5m	€15.5m	€30.0m	€43.4m	€55.7m

Source: TSG paper on General Excise 2018.

[10] https://health.gov.ie/wp-content/uploads/2015/03/xMUP-FINAL-Report-2014.pdf

Tobacco

Excise duty on tobacco products has increased in 22 of the last 26 budgets. The TSG paper suggests that the excise rate differential between roll-your-own tobacco and cigarettes be closed. Minimum Excise Duty (MED) increases have been suggested to target cheaper tobacco products. The TSG paper provides a table of forecast revenue increases according to potential excise rate increase. These are presented below. It also discussed the introduction of standardised packaging which will soon also be compulsory for retail sale of tobacco products, and may lower receipts.

Table 3: Changes in excise amount on a 20 pack of cigarettes in the Most Popular Price Category (MPPC), the tax content of a 20 pack of cigarettes in the MPPC, and the retail price of a 20 pack of cigarettes, by year.

Year	Tax increase	Tax content	Retail Price
2010	-3.5c	€6.71	€8.55
2011	0c	€6.75	€8.55
2012	44.3c	€7.21	€9.10
2013	10c	€7.34	€9.40
2014	10c	€7.47	€9.60
2015	40c	€7.87	€10.00
2016	50c	€8.37	€10.80
2017	50c	€8.87	€11.50
2018	50c	€9.51	€12.20

Source: TSG paper on General Excise 2018.

Upcoming changes and policy options:

The paper puts forward a number of policy options regarding excise on tobacco products such as:

- Increasing the Minimum Excise Duty (MED). This is a minimum level of excise duty of €344.07 per 1000 (€6.88 per 20 pack), that will apply regardless of how low the retail price of the cigarettes are. See table below for these potential options and costings.

Table 4: Potential retail "trigger price" at which MED takes effect and the respective additional yields to the exchequer of these MED trigger prices.

Minimum Excise Duty "trigger price"	€10.00	€10.50	€11.00	€12.20
Total Additional Yield (Excise duty and VAT)	€1.2m	€3.1m	€6.9m	€18.3

Source: TSG paper on General Excise 2018.

- Another option proposed in the TSG paper, is to alter the structure of taxes on tobacco products, to increase the level of fixed excise duties, and lessen the *ad valorem* portion of the tax.
- The paper also mentions the calls from multiple organisations concerned with tobacco consumption, such as the Irish Cancer Society, to introduce a Tobacco Products Tax escalator of inflation + 5%.

Additionally, the TSG paper on general excise provides a table of the expected returns to the exchequer of various increases in the excise rate on cigarettes and RYO. The table provided by the TSG however, assumes the best case scenario for revenue raising potential of excise increases.

Table 5: Potential excise rate increase and their forecasted additional yields to the exchequer, by the TSG paper and the Revenue Ready Reckoner.

Increase (per pack of 20 cigs)	Yield (TSG)	Yield (Revenue Ready Reckoner)
5c	-	-€4m to €6m
10c	€11.7m	-€8m to €12m
20c	€23.3m	-
25c	-	-€21m to €29m
30c	€34.9m	-
40c	€46.4m	-
50c	€57.8m	-€45m to €58m
60c	€69.1m	-
70c	€80.4m	-
80c	€91.6m	-
90c	€102.7m	-
100c	€113.7m	-

Source: TSG paper on general excise 2018, Revenue Ready Reckoner 2018.

As can be seen, the TSG paper estimates are best case scenario costing. There are strong indicators that these are over-estimates of potential revenue increases. Based on previous research carried out by Revenue it is possible that increasing excise duties could possibly generate a lot less revenue to the exchequer than the TSG reports, and could even reduce receipts to the exchequer compared with not increasing excise duties.

Committee Recommendation

The Committee recommends that the excise rate differential between roll-your-own tobacco, cigarettes and heated tobacco products ("heated cigarettes" means rolls of tobacco that can be heated or smoked when inserted into a battery or electronic device) be closed.

Betting Duty

The Betting (Amendment) Act 2015 extended the licensing regime in Ireland to remote bookmakers and remote betting intermediaries. Previously, remote bookmakers and intermediaries were not liable for the same tax, though they directly compete with retail bookmakers.

Policy Options:

The Committee notes the two main policy options available to Government regarding Betting Duty. The TSG considers options to increase the betting tax from 1% to 2% on the turnover of traditional and remote bookmakers. Assuming no changes in consumer behaviour, this would double tax receipts from €51.5m in 2018 to €103m in 2019. The Committee notes that any changes in consumer behaviour due to this relatively small tax increase would likely be minimal.

Additionally increasing the tax rate on commissions earned by betting intermediaries, from 15% to 30%, is forecast to increase receipts from €1.8m to €3.6m, as set out in Table 6 below.

Table 6 Policy Options/Recommendations for decision by Government

Option	Forecast Revenue
Increase the tax rate from 1% to 2% for traditional and remote bookmakers.	Increase from €51.5m in 2018 to €103m in 2019.
Increase the tax rate on commissions earned by betting intermediaries from 15% to 30%.	Increase from €1.8m in 2018 to €3.6m in 2019

Environmental Taxes

Ireland has a target of a 20% reduction in Greenhouse Gas (GHG) emissions by 2020. This is not going to be achieved and it will be necessary to 'purchase compliance' by way of carbon credits. As part of EU wide targets, Ireland has been given a target reduction of 30% on 2005 levels of GHG emissions by 2030.[11]

[11] For more detailed analysis, see PBO publication, Pre-Budget 2019: Energy and Environmental Tax Issues and Options. https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-09-18_pre-budget-2019-energy-and-environmental-tax-issues-and-options_en.pdf

In 2017, environmental taxes amounted to €3.33bn and are projected to yield €3.55bn in 2018. There are a number of TSG policy options in the area of environmental taxes summarised below.

Transport Fuels:

Excise rates on diesel and petrol have remained constant since 2012, at 47.9c and 58.7c per litre respectively. Diesel consumption has been increasing relative to petrol consumption, partially due to this rate discrepancy. The VRT / Motor Tax system is based on engine size and emission rates. This tends to favour diesel engines which produce less CO_2 emissions, but produce harmful N02 emissions. This has led to many organisations, including the OECD and the EU Commission, to recommend closing the excise gap between petrol and diesel.

The TSG paper outlines a pathway to equalise excise rates on petrol and diesel, Table 7 (below) presents a forecast for additional yields to the exchequer, from the equalisation of rates over time, assuming no change in consumer behaviour.

Table 7: TSG proposed potential pathway to diesel and petrol excise rate equalisation, and resulting yield, by year.

Year	Petrol excise	Diesel excise	Yield	Cumulative Yield
Current Rates Per Litre	58.77c	47.90c		
2019	58.77c	50.08c	€71.2m	€71m
2020	58.77c	52.25c	€70.9m	€142m
2021	58.77c	54.42c	€70.6m	€213m
2022	58.77c	56.60c	€70.3m	€283m
2023	58.77c	58.77c	€70.0m	€353m

Source: TSG paper on energy and environmental tax 2018.

Carbon Tax: The TSG advises that a long term price signal, indicating how carbon tax will increase in the future, would allow individuals and firms to plan more assuredly for carbon tax increases by switching to less CO_2 intensive energy sources.

Electric Vehicles: The TSG reported that that the work by the Low Emissions Vehicle Taskforce, established to examine options which may be beneficial to the adoption of this cleaner technology, is expected to be completed soon.

Benefit-In-Kind: It advises that the BIK tax rate structure, which currently incentivises employees to increase kilometres driven to reduce tax liabilities, be reformed to prevent poor environmental outcomes.

Vehicle Registration Tax (VRT): The World Harmonised Light Vehicles Test Procedure (WLTP) will become the standard measure of CO_2 emissions, from which VRT rates are derived. This new measure will result in higher CO_2 emissions and therefore higher VRT rates. The Committee notes that this may prompt changes in how VRT is applied. A second strategic issue was identified during the Committee's discussions with Professor Edgar Morgenroth[12] and the Irish Road Hauliers' Association[13] on the petrol-diesel gap. In the longer term, CO_2 emission levels from vehicles are expected to decrease with the take-up in electric vehicles. Therefore, a new basis for calculating VRT rates and motor taxation will need to be established in order to retain the substantial levels of revenue from these two sources.

[12] https://www.oireachtas.ie/en/debates/debate/committee_on_budgetary_oversight/2018-05-08/3/

[13] https://www.oireachtas.ie/en/debates/debate/committee_on_budgetary_oversight/2018-05-08/3/

Committee Recommendations

- The Committee recommends that the Government consider phasing in the equalisation of tax rates on diesel and petrol over a number of years.
- The Committee recommends that if the Government proceeds with equalising the tax rates on diesel and petrol that they have regard to the farming sector and the haulage sector both of which suffer from a lack of viable alternatives.
- The Committee recommends that the Government consider increasing carbon tax over a number of years in order to give a long term price signal to the market to incentivise a switch to less carbon intensive energy sources.
- The Committee recommends that the Tax Strategy Group carry out review of the tax structure around BIK to examine ways in which the current system can be adjusted to promote environmentally friendly outcomes.
- The Committee recommends that the Government, in determining whether to increase carbon tax, shall have regard to the possible effects on cross border trade of solid fuels between Northern Ireland and the Irish Republic
- The predicted uptake in electronic vehicles presents a long term challenge to the tax take from fuel, excise duties, motor tax and VRT. The Committee is in agreement that the VRT and Motor Tax systems will need to be reviewed to establish options to form a new basis for calculating VRT rates.

Inheritance Tax

In 2017 Capital Acquisitions Tax (CAT), which includes gift tax, inheritance tax and discretionary trust tax, generated a total yield of €460 million and is expected to generate a yield of €472 million in 2018. Receipts from inheritance taxes in 2017 amounted to €426 million of the total.

For 2019, there are a number of budget options involving changing the rates and tax free thresholds for CAT. These are detailed in Table 8 below, taken from Revenue's Ready Reckoner pre-Budget 2019. The Table only gives the cost of increasing the Group A threshold by 10% which is estimated as €22.4 million. However, if the threshold were to be increased by 61% or to €500,000; then the estimated cost would be approximately €134.4 million.

Other options relating to CAT include reducing the scale of agricultural and business property relief. However, the TSG paper on this issue highlighted possible negative

impacts that certain reductions could have on the development and growth of family businesses.

Committee Recommendations:

- In the context of significant and consistent annual increases in house prices over the last decade, the Committee recommends that the Government should consider increasing the Group A inheritance tax threshold from €310,000 to €500,000.
- As an alternative to increasing the inheritance tax thresholds, the Committee recommends that the Government consider broadening the scope of the Dwelling House Exemption to include relatives who are living outside the family home.

Income Tax, USC and PRSI

Income Tax and USE raised a combined total of €20 billion (39.4% of total tax revenue) in 2017 and the same sources are projected to yield €21.4 billion in 2018 (39.6% of the total).[14] Employee wages account for 81.1% of the yield in 2017.[15] PRSI is also a significant contributor to Exchequer resources. In 2017, PRSI yielded €9.8 billion, of this the Employer contribution was €7.1 billion, the Employee contribution was €2.1 billion and the self-employed contributed €522 million.

Budget 2019

The Government's stated goal with regard to taxing income is to gradually reduce the burden on middle income earners, and to explore the merger USC and PRSI.

Income Tax (PAYE)

To promote social solidarity, income tax in Ireland is designed to be a progressive system. A progressive tax system aims to ensure that those on higher incomes pay a greater proportion of their income in tax than those on lower incomes.[16]

[14] Tax Strategy Group 18/02 Income Tax and USC

[15] Revenue Statistics, Revenue Net Receipts by Taxhead.

[16] A comprehensive list of tax credits can be found on the Revenue Commissioner's website.

Table 8: Standard Rate Cut Off Points

Category	Standard Rate Cut Off Point
Single Person	€34,550
Married couple/civil partners, one income	€43,550
Married couple/civil partners, two incomes	Up to €69,100[17]
One parent family	€38,550

Source: www.revenue.ie

USC

The Universal Social Charge (USC) was introduced in 2011 as a replacement for the Income Levy and the Health Levy. It is designed to be a progressive charge that applies a higher rate at higher levels of income.

Table 9: USC Bands once income is above €13,000

USC Bands	Applicable rate on earnings in band
0 - €12,012	0.5%
€12,012.01 - €19,372	2%
€19,372.01 - €70,044	4.75%
€70,044.01+	8%
€100,000+ (non-PAYE income)	3% supplement (i.e. 11%)

PRSI

The third aspect of payroll taxes in Ireland is Pay Related Social Insurance (PRSI). While there are a number of PRSI 'classes', the great majority of employees will be considered to be 'Class A'. PRSI is imposed through two channels. One part is paid by a charge taken from an employee's wages, while the other is paid by the employer for every employee. Self-employed people with an annual income of over €5,000 pay a rate of 4% PRSI. The amount of PRSI payable through these methods is calculated separately. PRSI due is calculated based on weekly earnings. However, for the purposes of comparison, these have been annualised.

[17] The standard rate cut-off point for a married couple or civil partners is €43,550. If both are working, the partner with the higher income has a Standard Rate Cut Off Point of €43,550, while the partner with the lower income begins to pay the higher rate at €25,550.

Analysis of Tax Yield

Table 10 shows revenue from income taxes and PRSI from 2011 to 2017. In total, income taxes including USC brought in just under €20 billion in revenue in 2017 with PRSI bringing in €9.8 billion out of a total of €29.75 billion. This is €8.5 billion or 40% more than 2011 reflecting strong economic growth over the period. USC has not increased in line with economic growth mainly due to the current and previous Government's strategy to gradually reduce USC rates and expanding its income bands. The Committee notes that these changes are estimated to have cost €1.5 billion over the period 2016-2018.[18]

Table 10: Revenue from Income taxes and PRSI 2011 to 2017

	2011	2012	2013	2014	2015	2016	2017
PAYE Income Tax	8,496	9,058	9,508	10,778	10,950	11,985	13,071
Self-Assessed Income Tax	811	883	1,039	1,332	1,434	1,915	1,844
Income Tax	**9,307**	**9,941**	**10,547**	**12,110**	**12,384**	**13,900**	**14,915**
PAYE USC				3,171	3,640	3,287	3,131
Self-Assessed USC				476	534	681	593
Universal Social Charge	3,114	3,790	3,930				
Universal Social Charge (Total)	**3,114**	**3,790**	**3,930**	**3,647**	**4,174**	**3,968**	**3,724**
Other income taxes	**1,391**	**1,420**	**1,275**	**1,375**	**1,785**	**1,304**	**1,333**
Total income taxes	**13,812**	**15,151**	**15,752**	**17,132**	**18,343**	**19,172**	**19,972**
Employer PRSI	5,461	4,996	5,331	5,749	6,165	6,606	7,137
Employee PRSI	1,617	1,480	1,580	1,704	1,826	1,957	2,114
Self-Employed PRSI	348	310	397	406	460	607	522
Total PRSI	**7,426**	**6,786**	**7,308**	**7,860**	**8,452**	**9,171**	**9,773**
Total income taxes and PRSI	**21,238**	**21,937**	**23,060**	**24,992**	**26,795**	**28,343**	**29,745**

[18] Tax Strategy Group Paper TSG 18 (2) p 16. https://www.finance.gov.ie/wp-content/uploads/2018/07/TSG-18-02-Income-Tax-JC.pdf

International Comparisons

The Committee notes that although Ireland's income tax share is close to the average for the OECD, international comparisons show that Ireland has a relatively low tax wedge (Table 11).

Table 11: OECD Tax Wedges, OECD Taxing Wages 2018, Single individual without children at the income level of the average worker.

Country	Total tax wedge	Income tax	Social security contributions	
			Employee	Employer
Belgium	53.7	20.7	10.9	22.2
Germany	49.7	16.0	17.4	16.3
Italy	47.7	16.5	7.2	24.0
Austria	47.4	11.2	14.0	22.2
Finland	42.9	17.1	7.6	18.2
Portugal	41.4	13.3	8.9	19.2
Spain	39.3	11.3	4.9	23.0
Estonia	39.0	12.5	1.2	25.3
Netherlands	37.5	15.5	11.8	10.1
Denmark	36.3	35.8	0.0	0.8
United States	31.7	16.9	7.1	7.7
United Kingdom	30.9	12.6	8.5	9.8
Australia	28.6	23.0	0.0	5.6
Ireland	**27.2**	**13.9**	**3.6**	**9.7**
Korea	22.6	5.5	7.6	9.4
Mexico	20.4	8.8	1.2	10.4
New Zealand	18.1	18.1	0.0	0.0
OECD Average	**35.9**	**13.5**	**8.2**	**14.2**

Budget 2019 – Cost of potential tax changes

Table 12 (below) examines the cost /yield from selected policy changes to Income tax, USC and PRSI. Most of these are changes to tax rates or changes to bands/credits.[19]

Table 12 highlights the fact that small changes to rates, credits or exemption limits have a significant impact on revenue yield / loss. For example cutting the 20% Income Tax rate by one percentage point would cost €660 million in a full year, or 82.5% of the Government's indicated net package for Budget 2019.

The Committee also notes that indexing the income tax system (i.e. increasing tax bands and limits and credits in line with income growth) is costed at approximately €188 million per percentage point increase in earnings. Given that earnings are expected to increase by 2.8% in 2019, (SPU 2018) full indexation would cost approximately €526 million.

[19] The Revenue Commissioner's Ready Reckoner for Pre-Budget 2019 contains comprehensive costings for additional rates, credits, exemption limits and tax policy options.

Table 12: Cost/Yield of selected policy changes to Income tax, USC and PRSI

Options	**First Year Cost/Yield €m**	**Full Year Cost /Yield €m**
Income Tax		
Cost of 1 % (pp) decrease in 20% rate Cost of 1pp decrease in 40% rate	-567 -287	-660 -348
Yield from 1pp increase in 20% rate Yield from 1pp increase in 40% rate	571 286	664 347
Yield from introduction of 3rd rate of 41% - Earnings over 80,000 Yield from introduction of 3rd rate of 43% - Earnings over 80,000	114 341	144 433
Selected Tax Credits		
Increase main personal tax credits by €100 per person Increase Single Persons Credit from €1,650 to €1,750 Married or in Civil Partnership Credit from €3,300 to €3,500 Widowed Person or surviving Civil Partner (without qualifying child) Credit from €2,190 to €2,290 Single Person Child Carer Tax Credit from €1,650 to €1,750	-217	-254
Increase PAYE Credit by €50 - From €1,650 to €1,700	-89	-103
Increase Earned Income Credit by €500 - From €1,150 to €1,650	-28	-46
Increase Home Carer's Credit by €50 - From €1,200 to €1,250	-3.5	-4
Increase Incapacitated Child Credit by €100 - From €3,300 to €3,400	-1.9	-2.2
Increase Age Credit by €50 for single/widow/surviving Civil Partner (from €245 to €295) and Age Credit by €100 for married/civil partners (from €490 to €590)	-14	-16
Standard Rate Bands*		

Increase standard rate cut off point by €500 Increase standard rate cut off point by €1,000 Increase standard rate cut off point by €1,500 (single, married one-earners and two earners)	-93 -183 -271	-108 -213 -316
Indexation		
Indexation at 1% - PAYE Credit, Exemption limits, Personal Tax Credits with rate bands Indexation at 1% - Earned Income Credit Indexation at 1% - USC rate bands and exemption limits	-143 -0.7 -18	-166 -1.2 -21
Universal Social Charge		
Decrease main USC rates by 1pp (0.5pp for the 0.5% rate) • Decrease 0.5% rate to 0.0% • Decrease 2% rate to 1%** • Decrease 4.75% rate to 3.75% • Decrease 8% rate to 7%*** • Total of above changes	-117 -157 -349 -135 -758	-136 -183 -408 -171 -898
Increase main USC rates by 1pp • Increase 0.5% rate to 1.5% • Increase 2% rate to 3%** • Increase 4.75% rate to 5.75% • Increase 8% rate to 9%*** • Total of above changes	233 157 349 135 874	272 183 408 171 1,034
Pay Related Social Insurance		
Increase main PRSI rates by 0.5 percentage point • Employer PRSI 7.8% to 8.3% • Employer PRSI 10.05% to 10.55% • Employee (Class A) PRSI 4% to 4.5% • Self-employed PRSI (Class S) 4% to 4.5% • Total of above		21 356 358 57 792

Source: Revenue Ready Reckoner[20].

[20] Pre Budget 2019, with exception of PRSI which is based on Tax Strategy Group – Pay Related Social Insurance July 2018.*Assumes the maximum allowable transferability of €9,000 across the board. These costs

Merger of PRSI and USC

The Programme for Government committed to phase out USC as part of a medium term income tax reform plan. In Budget 2018, the Minister for Finance and Public Expenditure and Reform set up a Working Group to plan the amalgamation of USC and PRSI over time. This group was given a deadline of 30 June 2018 to complete its work, which is likely to be published with Budget 2019.

The Committee is of the opinion that issues to be considered include:

The merger of PRSI and USC would involve resolving a range of complex issues. Some of these key issues include:

- *The need to replace post amalgamation, the combined €13.7bn* that USC and PRSI currently raise
- *Bases* – the tax base of USC is broader than that of PRSI as it covers more forms of income and Individuals. A key consideration will be how to preserve the tax base for both PRSI and USC.

Committee Recommendation:

The Committee recommends that the report of the Working Group explicitly address these issues.

In addition the Working Group needs to carefully consider the differences in rates between both taxes, thresholds, the phasing in period, the impact on the Social Insurance Fund, distribution and equality issues and the impact on bilateral social security agreements.

Other Issues raised in TSG papers

The TSG paper on Income Tax & Universal Social Charge also raises a number of other issues including:

- The top 1% of income earners (>€200,000) pay 28% of total Income Tax and USC, with the top 26% of income earners (>€50,000) paying 85% of Income Tax and USC.

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do not take into account the Earned Income Credit. **Includes the reduced rate USC for Medical Card holders. ***Includes those paying the 3% surcharge on non-PAYE income exceeding €100,000 in a year.

- Tapered withdrawal of tax credits for high income earners - this would mean that above a certain income threshold tax credits would gradually reduce and over a certain income be withdrawn altogether. This would mean higher earners paying a higher share of their income in tax as well as being responsible for contributing a greater share of tax revenue overall.

Committee Recommendations:

- Income tax, the Universal Social Charge and Pay Related Social Insurance collectively raised almost €30 billion in 2017 and are expected to raise additional income in 2018. As they are broad based taxes, any changes to them tend to raise, or cost relatively large amounts.
- If progressed, the merger of USC and PSRI will be complicated as it would involve a significant reform of the system. The Committee is of the view that the Government needs to proceed carefully, given the challenges involved. However, it may represent an opportunity to tackle anomalies in the current system.
- Consideration should be given to a further increase in the National Training Levy to provide additional funding for training and education.

Section Three: Expenditure Options

Tax Expenditures

Tax expenditures are one tool that government can use to correct apparent market failures, or to encourage the fairer allocation of resources. Examples of this include a tax relief on third level fees to encourage investment in education, or the cycle to work scheme.

Tax expenditures represent a significant cost to the Exchequer: in 2016, total revenue foregone represented approximately 10% of total tax revenue.[21] While some tax expenditures may have a social benefit they are by their nature inequitable, and can lead to a narrowing of the tax base. Critically, the Committee also notes that tax Expenditures, once enacted, are not subject to the same level of parliamentary debate and scrutiny as voted expenditure.

For this reason the Committee is of the opinion that it is necessary to routinely review existing tax expenditures to ensure that they remain cost effective, efficient and fit for purpose. There is also scope for a more systematic examination of tax expenditures as part of the wider budget scrutiny process.

According to analysis carried out by the PBO, total revenue foregone as a result of tax expenditures amounted to approximately 10% of total tax revenue for 2014, 2015 and 2016 (see Table 14 below).

Table 14. Scale of Tax Expenditures

Year	2016	2015	2014
Cost of tax expenditures (€ billions)	5.05*	4.17	4.73
Total Tax Revenue	10.53%	9.11%	11.43%
Total Voted Expenditure	9.03%	7.64%	8.91%
GDP	1.85%	1.59%	2.42%
GNI*	2.87%	2.58%	3.18%

Source: Compiled by the PBO[22].
Note: Data for the cost of tax expenditures in 2016 is incomplete - data for some of the largest tax expenditures has yet to be released. The 2016 figure is based on the available data, supplemented with figures from 2015 for certain larger tax expenditures where data is missing.[23]

[21] The latest year for which data is available.

[22] Compiled by the PBO[22] using the Department of Finance's Annual Report on Tax Expenditures 2015, 2016 and 2017, Revenue Commissioner's Cost of Tax Expenditures, Central Statistics Office, Department of Public Expenditure and Reform Statistical Database.

[23] Data for TE relating to: employer and employee contributions to approved superannuation schemes, employer's contributions from employee benefits in kind, pension contributions, and the R&D Tax Credit and the additional credit for incapacitated children are not yet available for 2016 and have been supplemented in Table 1 using 2015 figures.

The Committee is of the view that there are a number of areas where review, evaluation and costing can be improved. These areas are as follows:

- **Classification:** At present, there is a difference in approach between the Revenue Commissioners and Department of Finance as to how they define *benchmark measures* and tax *expenditures*. Agreed definitions would help to eliminate discrepancies,[24] and would allow the creation of a common list of benchmark measures and tax expenditures.
- **Data access and availability:** Improvements could also be made to access, availability and transparency of data relating to tax expenditures. For example there is no one consolidated list giving the total cost of tax expenditures, excluding benchmark measures.
- **Estimation:** The Department of Finance uses the *initial revenue forgone* approach to estimating the cost of tax expenditures. This approach does not take account of behavioural responses to tax expenditure measures. As a result, it does not give the most accurate estimation of costs. Indeed, this is a common theme when the Committee revenue projections in relation to a number of budget policy measures, where the methodology is not adequately defined.
- **Review and evaluation:** Although there is no legal requirement to carry out reviews of tax expenditures in Ireland, the Department of Finance guidelines state that regular ex-ante and ex-post evaluation should be carried out on tax expenditures. However, according to these guidelines, several reviews are either over-due or due in the next 12 months.

[24] A detailed explanation of the benchmark system is set out in forthcoming PBO briefing paper on tax expenditures

Committee Recommendations:

- The Committee recommends that the Department of Finance work towards implementing a systematic approach to regular ex-ante and ex-post review of all tax expenditures to assess their appropriateness and effectiveness.
- While the Committee welcomes the data published by Revenue and the Department of Finance on tax expenditures, it recommends that an agreed definition of tax expenditures and benchmark measures is adopted so that discrepancies can be eliminated.
- The Committee recommends that the Department of Finance considers using of alternative methods to estimate the costs of tax expenditures.
- The Committee recommends the publication, annually, of a consolidated list of all tax expenditures, excluding benchmark measures, that aggregates the estimated costs of all tax expenditures
- The Committee recommends that for Budget 2020, the Department of Finance produced estimates for the aggregated cost of all tax expenditures and the cost of individual tax expenditures for the next year.

Post-Brexit Tax Impacts

Fiscal implications

The Committee re-iterates the importance of framing the Budget as a whole, and all Budget tax decisions around the potential impact that Brexit may have on the Irish economy.

Price differentials between the UK and Ireland present an increased risk of smuggling and illicit trade from consumers importing goods in excess of personal allowances. There is also the risk of a loss in revenue as a result of duty free shopping at ports and airports, given the large volume of traffic between the UK and Ireland.

Administrative implications

The UK's status as a third-country would increase the administrative complexity of trading between the UK and Ireland. The UK would be outside of the EU VAT framework, changing the procedure for indirect tax returns. In addition, customs duty, VAT and

excise duty would be payable at the time of import. Any administrative cooperation between the UK and Ireland in combating fraud would be required to be negotiated at the EU level. These administrative changes could have resource implications for Revenue, in the administration of indirect taxes.

Direct taxes

Tax competition and the settling of securities traded in Ireland

While the UK would still be subject to OECD Harmful Tax Practice criteria, it would be outside the scope of EU Codes of Conduct regarding tax competition and EU State Aid rules. This means that the UK will potentially have greater flexibility and a competitive advantage in the design of tax incentives to attract foreign direct investment, undermining Irish competitiveness.

In addition, as financial instruments traded on the Irish Stock Exchange are currently settled using Euroclear CSD London (Central Securities Depository, an institution that settles equity or debt instruments), Brexit presents a risk in respect of the collection of Stamp Duty levied on shares.

Post-Brexit Customs Impacts

Customs controls and transit – resource implications for Revenue

The Union Customs Code (UCC) sets out the legislative basis for the interaction between EU Member States and third-countries in respect of customs. Customs declarations would be required upon entry or exit to or from the EU and the UK. Estimates by Revenue indicate that the volume of declarations would increase by 18 million per year, with safety and security declarations in respect of goods, potentially increasing by approximately 2.7 million. As a knock-on effect, major delays at borders could be expected.

The UCC rules also govern the movement of goods across the EU Single Market via third-countries. It requires the submission of multiple declarations, financial guarantees and the imposition of physical and administrative controls. Revenue estimates that the number of transit movements will increase by approximately 3.9 million per year.

Authorised Economic Operators

Customs formalities with third countries are managed through Authorised Economic Operators (AEO) approved by Revenue with access to Revenue IT systems. Ireland's 144 AEOs account for 89% of third-country imports. These operators pay duties and VAT monthly rather than at the point of import. 38,000 traders are identified as having regular dealings with the UK, while 100,000 are identified as having less frequent trade and are therefore less likely to have AEO status.

Revenue indicated that they do not intend to extend the use of their customs IT systems to all traders. If access is only granted to authorised traders, smaller traders may need to use an AEO as a customs agent, which may place a significant cost burden on these businesses.

Section Four: Review of Budget Documents

Summary of the Mid-Year Expenditure Report

The MYER was introduced in 2016 to improve transparency in the budget process. It is a useful budget scrutiny tool because it gives an overview of the expenditure position at the halfway point in the budget cycle. The 2018 MYER highlights any spending pressures or risks that emerged over the first half of the year. Analysis of its findings can be summarised as follows:

- Current expenditure at end of June 2018 is above profile. The overall positive expenditure position as presented in the MYER appears to be overly-optimistic, as a result of under-spending on capital projects. When compared with end of June 2017, the expenditure position is less favourable.
- The spending position potentially leaves very little room for manoeuvre in the Budget, given that expenditure pressures in the second half of the year are very likely to result in Supplementary Estimates. Total expenditure is expected to increase by €7.1bn between 2018 and 2021. This is split 60:40 between current and capital expenditure. The three main areas driving public expenditure as Employment and Social Protection, Health and Education and Skills.

Summary of Spending Review 2018

Similar to the MYER, the Spending Review was introduced as part of a budget reform package in 2016. The goal was to *"shift the emphasis away from annual incremental increases in expenditure, through the examination of the existing expenditure base"* (PBO paper Spending Review 2018).

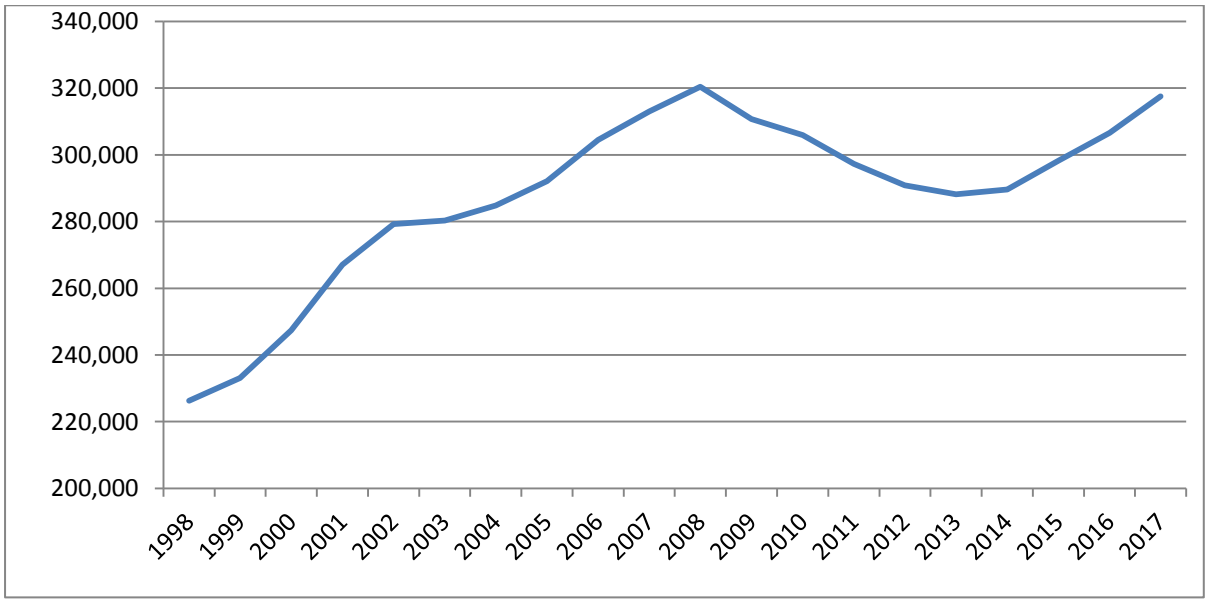
2018 is the second year of the Spending Review process. The Review includes 27 papers that examine a wide range of important spending programmes. The most substantive paper, which looks at expenditure drivers associated with each Vote Group, is "Trends in Public Expenditure". It identifies three main drivers of public expenditure:

- **Demographics:** Demographic growth will lead to increased demand for public services, particularly in Health, Education and Social Protection.
- **Labour market conditions:** Unemployment is expected to reach 5.3% by 2019, but there are outstanding policy challenges in this area. For example, expenditure on Social Protection is still higher than in other areas and barriers

to labour participation mean that Irish rates remain below the European average.

- **Public Service Numbers and Pay & Pension bill:** At the end of 2017 the number of people employed by the State amounted to 317,500. This is close to the pre-crisis level of 320,000 in 2008. The Trends in Public Expenditure paper stresses the importance of public sector recruitment decisions are taken in the context of "ensuring the short and medium term sustainability with regard to the Exchequer pay bill and the longer term sustainability in the Exchequer pension bill."

Figure 1: Public Service Numbers, 1998-2017, full-time equivalents



Source: DPER Databank

Committee Recommendations:

- The MYER and Spending Review Papers 2018 highlight the need to develop stronger linkages between outputs and budget decisions.
- The Committee recommends that the Department of Finance, Public Expenditure and Reform consider ways in which the data presented can be simplified and consult with the Committee in relation to proposals in this regard.
- Given the volume of information contained within the Spending Review Papers and the range of topics they cover the Committee recommends that they be published individually and at an earlier point in the Budget cycle.
- The Committee recommends that officials from Department of Finance, Public Expenditure and Reform come before the Committee in February 2019 for a post-Budget review to select themes of the Spending Review Papers 2018 such as:
    - Management of the Exchequer pay bill
    - HSE Staffing levels: Management and sustainability

Section Five: Structural Issues

Gender Budgeting

In May 2018, the Committee published its report on Gender Budgeting which put forward practical recommendations to integrate gender budgeting into the annual budget process. The key recommendation of the report was the preparation of an annual Equality Budget Statement (EBS) by the Department of Finance, to be read by the Minister for Finance and Public Expenditure and Reform, alongside the Budget Statement. The EBS should set out broad and ambitious strategic gender equality goals.

In parallel with the Committee's report, the PBO commissioned the ESRI to undertake a project to extend the capacity of the SWITCH model. This will allow policy-makers to assess the gender impact of budgetary policies in Ireland. In addition, the project examined if budgetary policy affected men and women differently over the period 2007 to 2017.

The ESRI presented the initial findings of the project to the Committee on September 12th.[25] The key findings suggest that women, specifically single mothers on low incomes, were disproportionately adversely affected by cuts made to social welfare payments in the period.

While the introduction of the Equality Budgeting Pilot Programme by the Department of Public Expenditure and Reform[26] was a welcome first step towards integrating gender budgeting into the budget process, evidence suggests that the budget is still considered a process where the gender dimension can be ignored. A clear example of this is that the only TSG paper to include a gender equality analysis was the paper relating to income tax. The remainder of the TSG papers provided a standard statement that "the tax measures examined would have no gender impact". However, no evidence was provided to support this statement. The model outlined in the ESRI Gender Impact report can be used in future to confirm if this is the case.

The Committee welcomes the ESRI's extension of the SWITCH model and its forthcoming report on the gender impact of budgetary policy from 2007 onwards.

[25] Committee on Budgetary Oversight meeting of 12th September 2018 with ESRI
[26] S. Swaine, Department of Public Expenditure and Reform (2018) Equality Budgeting: Proposed Next Steps in Ireland.

Committee Recommendations:

- The Committee recommends that a gender assessment of proposed budget measures, using the expanded SWITCH model, be integrated into the annual budget process carried out by the Department of Finance, and by the Department of Employment and Social Protection.
- The Committee recommends that gender equality objectives be reflected in the Spending Review Papers. The TSG group papers should also include more in-depth gender impact analysis for proposed tax measures. This would build on the progress made by the Equality Budgeting Pilot Programme and the work of the Committee in the area of gender budgeting.

Climate Proofing

Consistent with its promotion and monitoring of gender budgeting measures, the Committee has also encouraged work to begin to monitor the climate impact of budget measures. The Committee requested that the PBO produce a paper to examine how to improve the integration of climate issues and considerations into the budgetary process. This paper is due for publication shortly, and its main findings are as follows:

- Most of the countries analysed as part of this research did not give any special position to climate related issues within the annual budget process. However, the research findings do highlight key lessons that could possibly be adopted in Ireland.
- In looking at evidence obtained from the European Centre for Parliamentary Research and Documentation (ECPRD), Ireland does not appear to lag behind the average ECPRD country. However, four countries – Austria, Sweden, Italy and Norway have adopted frameworks that are better designed to deal with climate-related issues.
- Ireland's approach to climate change policy appears to be mainly decentralised in various line departments, with the Department of Communications, Climate action and Environment taking a lead role. The Revised Estimates for Public Services also contains some output targets and indicators which are linked to energy and climate policy.

In examining Ireland's approach to climate-related issues and policy the PBO also puts forward a number of ways in which the existing approach could be improved and strengthened, such as:

- Having a climate change section in the annual budget
- Publishing a supplementary report alongside the budget
- Strengthening the Performance-based Budgeting Framework

Committee recommendations:

- The Committee welcomes the work on climate proofing carried out by the PBO and recommends that a Supplementary Climate Change report be published alongside the budget, addressing issues such as identification of the main budget allocations and tax measures that will have a significant impact on climate change targets and quantifying the impact of these measures on greenhouse gas emissions.
- The Committee also recommends incorporating papers addressing climate change issues into the Spending Review.

Transparency and Budget Scrutiny

A major theme of this report, and of the Committee's work over the past year, has been on the need to promote greater transparency around relevant budget information. Section 3 of this report highlighted transparency issues in relation to the MYER and the Spending Review Papers 2018. PBO analysis of the Revised Estimates Volume 2018 and the Supplementary estimates process also identified areas where transparency could be improved. Based on this analysis the Committee has made the following recommendations:

Committee recommendations:

- The Committee recommends that any additional monies required by Government Departments, arising from Budget over-runs, should be clearly identified in the allocations set out in the Revised Estimates. For example, the Committee notes that the Voted Allocations provided for in respect of the Health (Vote 38) in Budget 2018 are highly likely to increase in November 2018, in the event that a Supplementary Estimate is sought. When the Estimates are published for Budget 2019, this additional amount would not be shown. As a result, the scale of increase or decrease in the Health Vote is not clearly visible throughout the budget process, and its potential impact on budget planning is also unclear.
- The Committee has agreed to request a meeting with officials from DPER and the Department of Health to discuss the current approach to managing budgets in the Department of Health and in particular, the impact of Supplementary Estimates on budget planning.
- The Committee recommends that where a Government Department is considering a Supplementary Estimate, that Government also provides information to the relevant Oireachtas Committee on where that money is coming from i.e. underspend from a particular area.

Section Six: Stakeholder Views and Recommendations

The Committee met with a number of stakeholders as part of its pre-Budget hearings in July and September 2018. In September, the Committee met with and discussed budget priorities with the following groups:

- The Construction Industry Federation (CIF)
- Chambers Ireland (CI)

The Committee also received a range of pre-Budget submissions most notably from Retail Excellence Ireland and One Family, which were considered during the drafting of this report.

The key issues raised by the stakeholders included concerns over lack of housing, construction skills shortages, the risks posed by Brexit and the need for investment in capital infrastructure.

Housing

All stakeholders raised concerns about the current undersupply of housing in Ireland and the impact on property prices, competitiveness and economic growth. Both CIF and Ibec recommended extending the Help to Buy Scheme in order to address the rapidly increasing property prices being faced by first time buyers. However, the Committee previously examined the issue, and has found limited evidence to suggest that its extension would resolve current housing supply issues.

One Family highlighted the need for budget measures for single-parent households and recommended that the Government build or buy affordable public housing to meet growing demand and bring housing assistance supports in line with market rents.

Health

Early in 2018, in discussions with stakeholders, the Committee identified key problems caused by a significant underestimate of the Health Vote in 2018. The expenditure out-turn for 2018 highlights that these concerns were well founded. The Committee requests that Health expenditure for 2019 will be accurately forecasted and costed taking into account a realistic assessment of known demands across the Sector.

In addition, the Committee is strongly of the view that the additional resources necessary for the implementation of Sláintecare must be clearly identified in Budget 2019.

Disability services

The Committee carefully notes the expenditure proposals published by the informal Oireachtas Committee on Disability and in particular, the proposals on a Cost of Disability Payment and for a Multi-Annual Investment Programme for disability services in Ireland.

Skills shortages

The Construction Industry Federation raised the issue of skills shortages in the construction sector and the need to develop and improve traineeships and apprenticeship programmes. In its submission CIF stated that:

> *"In addition… we call for a number of initiatives required to increase the number of apprentices coming into the industry and to increase investment in traineeships. Delaying action now may mean skills shortages in the near future at a time when demand for construction will be at its highest – this will see increasing wages, rising business costs and a loss of value for money for the exchequer."* (Construction Industry Federation, Pre-Budget 2019 submission, 2018).

In order to address this issue CIF made a number of recommendations including a possible zero-rate employers PRSI for those employing apprentices in areas that are in need of stimulus, the introduction of a trainee grant and establishing a National Construction Research and Education Forum to increase funding for construction related courses at third level.

Investment in Capital Infrastructure

Both Chambers Ireland and CIF highlighted the importance of delivering on the Commitments made in the National Development Plan and Project Ireland 2040. Chambers Ireland recommended restricting the use of the Rainy Day Fund to ensure continued investment in capital infrastructure in the event of a drop in economic growth or an external economic shock. CI and CIF also put forward recommendations calling for a review and reform of public sector procurement processes to ensure smooth and quick delivery of high quality infrastructure and value for money.

Brexit

Retail Excellence Ireland raised particular concerns about the impact of Brexit and also the adverse effect of the increase in cheap non-European online imports on the retail sector. In its submission it stated that:

> *"Currently two-thirds of all online spend is fulfilled by businesses operating outside of this jurisdiction with a significant portion of imports emanating from Asia, America and beyond. Given this amount equates to over €14 million per day, it is physically impossible for the authorities to intercept each and every parcel. As a result, this represents a significant loss, not only to retailers in Ireland but the Exchequer in VAT receipts, duties and other taxes"* (Retail Excellence, pre-Budget 2019 Submission, 2018).

In order to address these concerns Retail Excellence made a number of recommendations including that Government:

- Should oblige online marketplaces to ensure all advertisers on their website have VAT numbers displayed and that said VAT number is valid prior to any business advertising on their platform
- Hold online marketplace, jointly and severally liable for unpaid VAT of overseas sellers operating on their websites where an overseas seller advertising on the site has not registered for an Irish VAT number

The Committee notes the recommendations made by Retail Excellence to help tackle the distance sales issue, and is of the view that further work is required to examine policy options in this area.

Appendix One: References

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Appendix Two: Terms of Reference

Go ndéanfar, de réir mholadh an Fhochoiste ar Athleasú na Dála faoi Bhuan Ordú 107(1)(*a*), Buan-Orduithe Dháil Éireann i dtaobh Gnó Phoiblí a leasú tríd an mBuan-Ordú seo a leanas a ghlacadh:

'186A. (1) Beidh arna bhunú, a luaithe is féidir i ndiaidh ationól na Dála tar éis Olltoghcháin, Buanchoiste, dá ngairfear an Coiste um Fhormhaoirsiú Buiséid, chun scrúdú a dhéanamh agus, más cuí leis é, chun tuarascáil a thabhairt don Dáil—

(*a*) ar an staid fhioscach fhoriomlán, lena n áirítear—

(i) an staid chomhiomlánaithe maidir le hioncam agus caiteachas agus Iarmhéid Ginearálta an Rialtais, lena n-áirítear spriocanna struchtúracha;

(ii) réamh-mheastacháin mheántéarma don airgeadas poiblí;

(iii) réamhaisnéisí agus forbairtí maicreacnamaíocha; agus

(iv) rialachas fioscach ginearálta, lena n-áirítear rialacha agus priacail fhioscacha a fheidhmiú maidir leis an staid fhioscach;

(*b*) ar an mbeartas maidir le caiteachas poiblí, lena n-áirítear—

(i) an staid chaiteachais ag féachaint don Uasteorainn Caiteachais Rialtais agus don tslat tomhais chaiteachais faoin gComhaontú Cobhsaíochta agus Fáis; agus

(ii) na hUasteorainneacha Caiteachais Aireachta a bhfuil feidhm acu maidir le Meastacháin ar leith nó grúpaí Meastachán i gcomhair Seirbhísí Poiblí i gcás go bhféadfadh athruithe suntasacha ar an bpróifíl chaiteachais tionchar a bheith acu ar an staid fhioscach fhoriomlán;

(*c*) ar an mbeartas maidir le fáltais an

That, in accordance with the recommendation of the sub-Committee on Dáil Reform under Standing Order 107(1)(*a*), the Standing Orders of Dáil Éireann relative to Public Business be amended by the adoption of the following Standing Order:

'186A. (1) There shall stand established as soon as may be, following the reassembly of the Dáil subsequent to a General Election, a Standing Committee, to be known as the Committee on Budgetary Oversight, to examine and, where it considers it appropriate, report to the Dáil on—

(*a*) the overall fiscal position, including—

(i) the aggregated position on revenue and expenditure and the General Government Balance, including structural targets;

(ii) medium-term projections for the public finances;

(iii) macro-economic forecasts and developments; and

(iv) general fiscal governance including the application of fiscal rules and risks to the fiscal position;

(*b*) public expenditure policy, including—

(i) the expenditure position having regard to the Government Expenditure Ceiling and the expenditure benchmark under the Stability and Growth Pact; and

(ii) Ministerial Expenditure Ceilings applying to individual Estimates or groups of Estimates for the Public Services where significant variations from the expenditure profile could potentially impact on the overall fiscal position;

(*c*) Exchequer receipts policy.

Státchiste.

(2) Féadfaidh an Coiste breithniú a dhéanamh ar ní a bhaineann le beartas poiblí agus a bhfuil tionchar suntasach aige ar an staid bhuiséid nó ar an staid fhioscach fhoriomlán: Ar choinníoll go rachaidh Cathaoirleach an Choiste, roimh thosach an bhreithnithe sin, i gcomhairle leis an gCoiste earnála iomchuí arna bhunú de bhun Bhuan-Ordú 84A.

(3) Féadfaidh an Coiste freisin breithniú a dhéanamh ar an gcreat foriomlán do rannpháirtíocht pharlaiminte le linn an timthrialla buiséid agus féadfaidh sé moltaí i ndáil leis an gcéanna a dhéanamh don Fhochoiste ar Athleasú na Dála, is moltaí a bheidh le breithniú ag an gCoiste sin faoi Bhuan-Ordú 107(1)(*b*): Ar choinníoll, le linn dó é sin a dhéanamh, go rachaidh an Coiste i gcomhairle—

(*a*) leis na Coistí arna mbunú de bhun Bhuan-Ordú 84A maidir le haon mholtaí a bhfuil tionchar acu, i dtuairim an Choiste, ar ról nó ar chúram na gCoistí sin; agus

(*b*) leis an Aire nó leis na hAirí iomchuí maidir le haon mholtaí a bhfuil tionchar acu, i dtuairim an Choiste, ar ról nó ar chúram Roinne nó Ranna,

agus tabharfaidh sé fógra i dtaobh thorthaí na gcomhairliúchán sin don Fhochoiste ar Athleasú na Dála.

(4) Beidh na cumhachtaí seo a leanas ag an gCoiste:

(*a*) an chumhacht chun fios a chur ar dhaoine, ar pháipéir agus ar thaifid mar a mhínítear i mBuan-Orduithe 85(2A) agus 88;

(*b*) an chumhacht chun fianaise béil agus fianaise scríofa a ghlacadh agus chun aighneachtaí a ghlacadh mar a mhínítear i mBuan-Ordú 85(1) agus (2);

(*c*) an chumhacht chun Fochoistí a cheapadh mar a mhínítear i mBuan-Ordú 85(3);

(*d*) an chumhacht chun sainchomhairleoirí a fhostú mar a mhínítear i mBuan-Ordú 85(8);

(*e*) an chumhacht chun taisteal mar a

(2) The Committee may consider a matter of public policy with significant impact on the budgetary position or on the overall fiscal position: Provided that prior to the commencement of such consideration, the Chairman of the Committee shall consult with the relevant sectoral Committee established pursuant to Standing Order 84A.

(3) The Committee may also consider the overall framework for parliamentary engagement throughout the course of the budgetary cycle and may make recommendations thereon to the sub Committee on Dáil Reform for that Committee's consideration under Standing Order 107(1)(*b*): Provided that, in so doing, the Committee shall consult with—

(*a*) the Committees established pursuant to Standing Order 84A on any recommendations which, in the opinion of the Committee, impact on their role or remit; and

(*b*) the relevant Minister or Ministers on any recommendations which, in the opinion of the Committee, impact on the role or remit of a Department or Departments,

and shall notify the results of such consultations to the sub-Committee on Dáil Reform.

(4) The Committee shall have the following powers:

(*a*) power to send for persons, papers and records as defined in Standing Orders 85(2A) and 88;

(*b*) power to take oral and written evidence and submissions as defined in Standing Order 85(1) and (2);

(*c*) power to appoint sub-Committees as defined in Standing Order 85(3);

(*d*) power to engage consultants as defined in Standing Order 85(8);

(*e*) power to travel as defined in Standing

mhínítear i mBuan-Ordú 85(9).

(5) Déanfar gach tuarascáil a bheartóidh an Coiste a thabhairt, arna glacadh ag an gCoiste, a leagan faoi bhráid na Dála láithreach agus as a aithle sin beidh cumhacht ag an gCoiste an tuarascáil sin, mar aon le cibé doiciméid ghaolmhara is cuí leis, a chlóbhualadh agus a fhoilsiú.

(6) Maidir leis an gCoiste cúig Chomhalta dhéag a bheidh air, nach comhalta den Rialtas ná Aire Stáit aon duine acu, agus ceathrar acu sin is córam dó: Ar choinníol—

(*a*) go mbeidh an Coiste agus aon Fhochoistí a cheapfaidh sé comhdhéanta ar chuma go ndéanfaidh sé nó siad ionadaíocht chothrom don Dáil; agus

(*b*) go mbeidh feidhm ag forálacha Bhuan Ordú 95 maidir leis an gCoiste.

(7) Go dtí go gcuirfear a mhalairt in iúl sa 32ú Dáil, leanfaidh an Roghchoiste um Fhormhaoirsiú Buiséid, a bunaíodh le hOrdú an 21 Iúil 2016 ón Dáil, ar marthain mar an Buanchoiste um Fhormhaoirsiú Buiséid, agus dá réir sin, bainfidh comhaltas reatha, Cathaoirleach, páipéir agus clár oibre an Roghchoiste leis an mBuanchoiste.'

Order 85(9).

(5) Every report which the Committee proposes to make shall, on adoption by the Committee, be laid before the Dáil forthwith, whereupon the Committee shall be empowered to print and publish such report, together with such related documents it thinks fit.

(6) The Committee shall consist of fifteen Members, none of whom shall be a member of the Government or a Minister of State, and four of whom shall constitute a quorum: Provided that—

(*a*) the Committee and any sub-Committees which it may appoint shall be constituted so as to be impartially representative of the Dáil; and

(*b*) the provisions of Standing Order 95 shall apply to the Committee.

(7) Until further notice in the 32nd Dáil, the Select Committee on Budgetary Oversight, established by Order of the Dáil of 21st July, 2016, shall continue in being as the Standing Committee on Budgetary Oversight, and accordingly, the current membership, Chairman, papers and work programme of the Select Committee shall be those of the Standing Committee.'.

—Ríona Uí Dhochartaigh, Aire Stáit ag Roinn an Taoisigh

Appendix Three: Links to Transcripts

8th May 2018 – Professor Edgar Morgenroth, Dublin City University.

Transcript

13th June 2018 – Irish Fiscal Advisory Council

Transcript

13th June 2018 – Economic and Social Research Institute

Transcript

13th June 2018 – The Irish Tax Institute

Transcript

19th June 2018 – ICTU, ISME, Dublin Chambers of Commerce, Social Justice Ireland and TASC

Transcript

3rd July 2018 – Irish Road Haulage Association

Transcript

3rd July 2018 – IBEC

Transcript

11th July 2018 – Minister for Finance and Public Expenditure and Reform

Transcript

12th September 2018 – ESRI

Transcript

Appendix Four: Committee Membership

Maria Bailey TD

Fine Gael

Richard Boyd-Barrett TD

Solidarity – People Before Profit

Colm Brophy TD

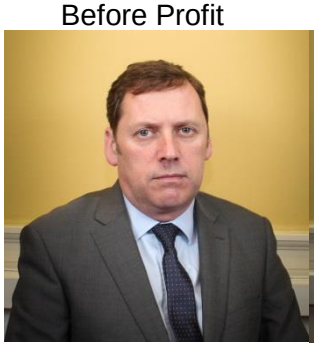
Fine Gael

Thomas P. Broughan TD

Independents 4 Change

Joan Burton TD

Labour

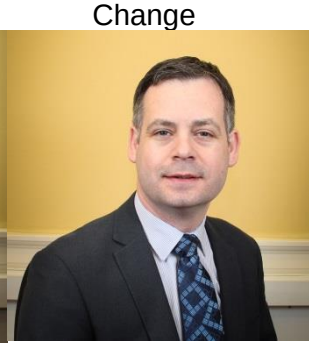


Barry Cowen TD

Fianna Fáil

Lisa Chambers TD

Fianna Fáil



Pearse Doherty TD

Sinn Féin

Declan BreathnachTD

Fianna Fáil

Martin Heydon TD

Fine Gael

John Lahart TD

Fianna Fáil

Michael McGrath TD

Fianna Fáil

Jonathan O'Brien TD

Sinn Féin

Eamon Ryan TD

Green Party

Notes:

1. Committee established by order of the Dáil of 21 July 2016
2. Deputies nominated by the Dáil Committee of Selection and appointed by Order of the Dáil of 21 July 2016.
3. Deputy Marc Mac Sharry was discharged from the Committee and Deputy John Lahart was appointed to Committee in replacement for him by order of the Dáil on 31 January 2017.
4. Deputy Kate O'Connell was discharged from the Committee and Deputy Pat Deering was appointed to Committee in replacement for her by order of the Dáil on 9 February 2017.
5. Deputy John Paul Phelan was discharged from the Committee and Deputy Josepha Madigan was appointed to the Committee in replacement for him by order of the Dáil on 11 July 2017.
6. Deputy Pat Deering was discharged from the Committee and Deputy Martin Heydon was appointed to the Committee in replacement for him by order of the Dáil on 13 July 2017.
7. Deputy David Cullinane was discharged from the Committee and Deputy Jonathan O'Brien was appointed to the Committee in replacement for him by order of the Dáil on 3 October 2017.
8. Deputy Josepha Madigan was discharged from the Committee and Deputy Colm Brophy was appointed as Chairman of the Committee by order of the Dáil on 12 December 2017.
9. Deputy Dara Calleary was discharged from the Committee and Deputy Barry Cowen was appointed to the Committee in replacement for him by order of the Dáil on 17 April 2018.
10. Deputies Seán Barrett and Stephen Donnelly were discharged from the Committee and Deputies Maria Bailey and Declan Breathnach were appointed to the Committee in replacement of them by order of the Dáil on 1 May 2018.