Introductory Statement by Mr Paschal Donohoe TD, Minister for Finance

at the meeting of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach
22nd February, 2018

Finance Group of Estimates 2018

I am pleased to have the opportunity to appear before the Finance Committee today in connection with the 2018 Estimates for my Department and for the other Votes within the Finance Group: the office of the Comptroller and Auditor General, the Revenue Commissioners, and the Tax Appeals Commission.

If I may, I will focus on my own Department first.

The **EU and International Division** deals with the development and implementation of strategies at European Union/Euro area level and internationally in relation to economic, fiscal and financial policy formulation and the cross-Departmental coordination of EU policy. It manages the EU budgetary process and EU economic governance. It also builds relationships through Ireland's diplomatic network and

ensures that both I and the Department are fully appraised of EU and international developments.

A dedicated Brexit Unit within the EU and International Division of the Department was established in July 2016 to manage Brexit work across the Department. This includes coordination of the Department's contribution to the overall Government response on Brexit, including input to the EU level negotiation process and domestic preparations to ensuring that our country and economy is Brexit ready and liaison with the Central Bank of Ireland, the NTMA and other agencies as appropriate.

Several proposals for the deepening of Economic and Monetary Union (EMU) will be discussed at the European meetings in 2018. These relate to delivery of Banking Union and Capital Markets Union; convergence in a more integrated Economic and Fiscal Union and promotion of structural reform.

The EU and International Division also manages our relationship with the International Monetary Fund (IMF), the European Central Bank (ECB), and the European Commission in the context for our former EU/IMF programme of financial support. The Division has responsibility for the management of membership, and policy development in relation to the European Stability Mechanism (ESM) and oversees our programme loan conditions.

The European Commission is due to bring forward its proposals on the post-2020 Multi Annual Financial Framework (MFF) in May 2018. The post-2020 negotiations will be a key challenge and priority for the Department.

During 2017 **Funds, Insurance, Markets and Pensions Division** made a positive contribution towards Council agreement on a range of financial services dossiers, in the areas of Anti-Money Laundering Directive and European Market Infrastructure. The Revised Prospectus Regulation and 5th Anti-money Laundering Directive

were concluded in 2017 with General Council Agreement reached on market infrastructure dossiers.

In the area of Anti-Money Laundering (AML)/Counter the Financing of Terrorism (CFT), Ireland had a favourable assessment in the Financial Action Task Force (FATF) mutual evaluation in 2016/2017. The report, published in September 2017, acknowledges the strength of Ireland's AML/CFT systems, the measures taken nationally to address the associated risks and the cooperation mechanisms developed by Ireland to combat them. The report includes a series of recommended actions which Ireland should implement over the next number of years and an Action Plan is currently being prepared to implement the various recommended actions.

The first report of the Cost of Insurance Working Group, which examined the factors contributing to the current rise in insurance premiums, was published in January 2017, with further updates on its implementation provided during the year. Work also commenced on

the Cost of Employer & Public Liability Insurance culminating on the publication of the report in January 2018.

The International Financial Institutions Division manages Ireland's relationship with a number of international financial institutions. These include the International Monetary Fund (IMF), the World Bank Group, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank and the Council of Europe Development Bank. Our membership of these institutions provides Ireland with a voice at important fora on global economic and international development issues.

Most recently, and reflecting the increasing significance of Asia to Ireland's economy, Ireland also became a member of the Asian Infrastructure Investment Bank (AIIB).

2017 also represented the largest ever annual financing by the European Investment Bank Group in Ireland. More than EUR 1

billion of new EIB Group financing was signed last year with new investments around the country.

The **Banking Division** is responsible for contributing to the development of a financial services system capable of supporting economic growth and job creation. This involves policy areas such as the provision of credit in the economy, SME financing, consumer protection and addressing mortgage arrears.

Small and Medium Enterprises (SMEs) are the lifeblood of the Irish Economy. They make up the vast majority of businesses in Ireland and account for approximately seven in every ten jobs. In terms of overall credit conditions, in the monitoring of bank lending data, I welcome the upwards trend in new lending to SMEs. The Government remains committed to ensuring that all viable SMEs continue to have access to a suitable supply of credit from a range of bank and non-bank sources. Brexit poses a big challenge for our economy as a whole and our SMEs in particular, who will continue to

need finance in order to diversify, support growth and create employment.

As members will be aware, when I appeared before the Committee last month I was very critical of the behaviour of banks and of the scandalous way they treated many of their tracker mortgage borrowers. The primary responsibility to put this right - and to do so as quickly as possible – rests with the lenders themselves.

However, as Minister for Finance I am advancing measures to further promote the interests of the consumers of financial products. Firstly, I have doubled the level of compensation – to €500,000 – that the Financial Services and Pensions Ombudsman may award to a consumer who has been adversely affected by the action of a financial services provider. Secondly, I am taking steps to appoint two new members to the Central Bank Commission who will have a strong consumer protection profile.

In addition, the Central Bank is looking at the current culture and behaviour and the associated risks in the retail banks, and the further

actions that may be taken to ensure that banks prioritise customer interests. I expect to receive a report on this during the summer 2018 and the Government will then consider if any additional legislative and regulatory changes are needed to further enhance accountability in the banks in relation to their consumers.

The **Shareholding and Financial Advisory Division** (SFAD) is responsible for the management of the State's Investments in the banking sector. The SFAD is also responsible for the management of our shareholding in the National Asset Management Agency (NAMA) and represents my interests in relation to the oversight of NAMA.

The successful IPO of AIB in June 2017 was the second biggest IPO transaction in the world last year. It raised €3.4 billion for the Irish taxpayer, lowering our national debt liability and decreasing borrowing costs annually. The well-supported IPO marked a significant milestone in the normalisation of the Irish banking sector

and demonstrated substantial international confidence in the Irish economy.

Credit unions are an integral part of our financial services landscape providing €2.4 billion of new lending, primarily consumer lending, in the year to September 2017, an increase of 43% from 2016.

The **Tax Division** manages taxation and budgetary policy. In relation to Taxation, the Division is responsible for analysing, drafting and preparing legislation, including the Finance Bill and the completion of the annual Budget process.

As I noted in my Budget speech, I have established an inter-Departmental working group to plan, over the coming year, the process of amalgamating USC and PRSI over the medium term. My officials will be working together with colleagues from the Departments of Employment Affairs and Social Protection and Public Expenditure & Reform and the Revenue Commissioners on this

project, with the view to delivering a report with options for consideration by end-June this year.

I recently announced a review of the Local Property Tax (LPT) which will look in particular at the impact on LPT liabilities of property price developments. It will include an examination of the outstanding recommendations of the 2015 Thornhill Review of the Local Property Tax. It is expected that the review will be completed at the end of August 2018 and that the review report will provide a number of policy choices for consideration.

Finance Act 2017 provides for an exploration of the key issues in relation to the potential application of a tax on vacant residential property. I consider that the objective to be met by such a tax would be to increase the much-needed supply of homes for rent or purchase to meet the growing demand. In that context it is important that we have a sound understanding of the quantity, locations and characteristics of long-term vacant dwellings, and the reasons why they are currently vacant. We also need to ensure that any vacant

dwelling taxation measure is capable of effective implementation and that it avoids unintended consequences.

The Economic Division is responsible for developing a strategy for the Irish economy across all sectors and the Economic analysis of Department policies. The Irish economy has come a long way in just a few years. Following a number of years of strong growth, driven by the export sector, the recovery has now entered a mature phase of development, with growth more broadly based across the economy.

The latest data indicates that the economy grew by almost 7 ½ per cent in the first three quarters of last year. I would stress that while the headline GDP figure can be exaggerated in an Irish context, other indicators such as consumer spending, employment / unemployment trends and taxation receipts confirm the strong recovery.

The recovery in the economy is most clearly evident in the labour market. From the low point in 2011, there are now almost 320,000 more people in employment.

Strong employment gains have helped reduce unemployment which has fallen from a peak of 16 per cent in early-2012 to 6.1 per cent in January 2018.

My Department forecast growth of 3.5 per cent this year, with both domestic demand and net exports contributing positively to the growth in the economy. From 2019 onwards, GDP is expected to average growth of just under 3 per cent which is broadly in line with the potential growth rate of the economy with positive contributions from both exports and domestic demand.

Despite the positive outlook, the Irish economy remains exposed to a number of international and domestic risks.

Internationally, as I noted earlier, the UK's decision to leave the EU represents the most prominent risk to the Irish economy. In addition, the uncertainty surrounding the Corporation Tax landscape, exchange

rate developments as well as increasing geo-political tensions all pose substantive risks to the Irish economy.

Domestically, notwithstanding the well-known limitations with GDP and GNP, it is clear that the recovery continues to outperform expectations and while this is to be welcomed, it creates its own challenges. In particular, if the economy continues to grow in excess of its potential, capacity constraints will begin to emerge. In these circumstances, it is essential that budgetary policy does not contribute to overheating. This is one of the defining economic challenges facing the Government over the coming years.

Presentation of the 2018 Estimates

Turning to the business of the committee today – the funding allocation sought for the Finance Group of Votes for 2018 totals €407m which compares to a 2017 Vote Group total of €389m. This represents an increase of €17.9m or 5%. The primary driver of this increase is the provision of a €15.7m increase for the Office of the

Revenue Commissioner relating to increasing Staff numbers and other Staff Costs, which I will address later in my speech.

The gross allocation sought for the Department of Finance Vote in 2018 is €42.05m, of which some €10m is provided for a fuel grant scheme for disabled drivers, a further €0.95m is provided to fund the office of the Financial Services and Pensions Ombudsman. Leaving these aside my Department's allocation provides for the administrative and non-administrative costs of the Department. The vast majority of this, some 61%, is provided to cover salaries and allowances, with a further €5.3m (17%) to cover facilities and non-pay administrative costs. The remaining €6.9m (22%) is provided to cover the legal, advisory and committee costs necessary to support my Department in the proactive delivery of its remit.

The allocation for **Vote 8, the Office of the Comptroller and Auditor General**, is applied towards a single Audit and Reporting programme.

The Comptroller and Auditor General (C&AG) is an independent, constitutional officer. The C&AG is responsible for controlling the release of funds for public services as approved by Dáil Éireann, auditing public accounts, undertaking independent examinations on the management and use of public resources, and reporting the results of the work to Dáil Éireann.

The C&AG's financial audit role covers 290 sets of accounts produced by public bodies. Together, those bodies have financial transactions that total over €200 billion of public money each year. The allocation for this vote in 2018 is €7.927 million (€6,915 in 2017), which is an increase of approximately 15% from 2017.

Turning to vote 9, the Office of the Revenue Commissioners has requested a budget allocation of some €357 million, an increase of €15.7million or 5% on the 2017 Net Estimate. Nearly three quarters of the budget is related to payroll.

The **Office of the Revenue Commissioners**, as the Irish tax and customs administration, plays a vital role in our economy by collecting taxes and duties due to the State. These receipts underpin Government's capacity to fund vital services and facilities for society. In 2017, Revenue collected a record €50.7 billion for the Exchequer and maintained high levels of compliance for the taxes and duties under its care and management.

Revenue has continued to support taxpayers in meeting their tax and duty obligations and there was an increase in the use of electronic business and PAYE self-service channels in 2017. Over 2.2 million payments were made through RevPay and the Revenue Online Service (ROS), an increase of 10% on 2016. Revenue continues to improve the way it interacts with taxpayers and in 2017 launched a new website which makes it easier to find information, and making that information easier to understand. Once again, in the annual report published by the World Bank last year, Ireland maintained its ranking of first among EU countries for ease of paying taxes.

A key priority for Revenue is PAYE Modernisation and this project represents the most significant reform of the PAYE system in over fifty years. Work is well advanced to introduce real time reporting of PAYE in 2019 and this will improve the accuracy and transparency of the PAYE system for all stakeholders. The 2018 Estimates provide for an additional €3 million in Capital and current funding for IT developments required for the administration and smooth transition to PAYE Modernisation.

Non compliance with tax and duty obligations is an ever present challenge. In circumstances where timely compliance or meaningful engagement was not forthcoming, Revenue continued to pursue those who did not meet their tax and duty obligations. In 2017, the yield from Revenue's audit and compliance interventions was €575m and there were 24 criminal convictions for serious tax and duty offences, an increase of 6 on 2016. There were also 1,616 summary convictions, with a total of €5.2m imposed in fines as well as the publication of 301 settlements on the List of Tax Defaulters.

To strengthen our focus on tackling non-compliance, I have allocated €4 million in the 2018 Estimates for an additional 100 Compliance staff for Revenue. This is mainly for audit and investigation activities, particularly PAYE Employer Compliance in advance of PAYE Modernisation, and additional international tax and transfer pricing specialists.

Tackling tax evasion is always high on Revenue's agenda and in particular addressing the risk to the Exchequer arising from the use of offshore accounts and structures to evade tax. In 2017, 2,786 disclosures with a declared value of €84 million were received under the offshore disclosure scheme and following the deadline, Revenue initiated a new inquiry to identify and pursue taxpayers engaged in offshore tax evasion and avoidance.

In other areas, Revenue continues to assist the Department of Finance in the formulation and implementation of tax policy. Revenue will support the Department of Finance in the review of the Coffey Report

on Corporation Tax and the implementation of OECD BEPS Action Plan. In relation to Brexit, Revenue has been participating in the inter-Departmental work co-ordinated by the Department of an Taoiseach and the Department of Foreign Affairs and Trade.

On **Vote 10, the Tax Appeals Commission** ("TAC", formerly the Office of the Appeal Commissioners) a budget of €1.626 million has been applied for, in 2018 (€1,605 in 2017), a 1% increase.

The significant increase in the 2018 Estimate is to provide for the TAC to advance its programme of modernisation and reform and to address its caseload in an efficient and effective manner, whilst also meeting its obligations and accountability as an independent Civil Service body. Specifically, during 2018, the TAC hopes to recruit more staff, including tax-qualified Case Managers. The TAC will also move offices during 2018, to premises which are fit for purpose, largely in that they will allow for multiple hearings and meetings with appellants to take place in parallel. Further expenditure by the TAC is in the area of ICT as it addresses the significant level of appeal cases.

I thank members for their attention and I commend the Estimates for the Finance group of Votes to the committee.