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Committee on Budgetary Oversight
Examination of the Commission on Taxation and Welfare Report
September 2023

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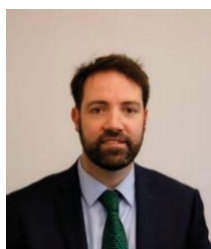
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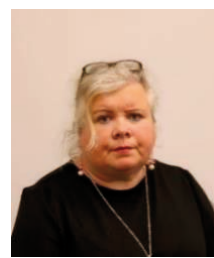
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Cathaoirleach's Foreword

The Commission on Taxation and Welfare was established in April 2021, with the aim of setting out how our taxation and welfare system might best support economic activity and income redistribution whilst promoting employment and prosperity in a resilient, inclusive, and sustainable manner.

This is ever more important given what we now know are the significant challenges facing these systems as well as our fiscal sustainability, in particular from our ageing demographic profile but also from the pressure to address climate demands and the carbon transition.

Whilst the Commission's body of work was no doubt a difficult one, addressing sensitive and sometimes controversial policy topics and areas of interest, it has published a comprehensive and detailed report, and one which has provided the Committee, and I'm sure the Government, with plenty food for thought as we navigate these current and future challenges.

The Committee and I are grateful for the work undertaken by the Commission, and I would like to express my thanks for their dedication and hard work in producing their report. As a Committee, we have held numerous session examining the Commission's report and it has allowed us to examine many of the Commission's recommendations in greater detail, and has provided us with much to consider regarding finding the most appropriate solutions to address the issues face.

Following our examination of the topic the Committee has made a number of recommendations addressing some of the issues raised withing the Commission's report. I hope that the Committee report will provide a platform for the further discussion of what is an increasingly important area in influencing policy formation.

On behalf of the Committee, I would like to thank all the stakeholders who appeared before the Committee and made submissions. Their input has been invaluable in helping the Committee consider the Commission's report and reach it conclusions.

As I was not in place as Cathaoirleach for the full set of meetings on this topic I would also like to express my thanks to the previous Cathaoirleach of the Committee, Neasa Hourigan T.D, for her attentive engagement and facilitation of discussion on this important issue.

Furthermore, I would like to thank the Members of the Committee for their diligence and thorough examination of the topic, and the secretariat for their work in preparing this report.

A handwritten signature in black ink, appearing to read 'Barry Cowen', with a stylized, cursive script.

Barry Cowen T.D.,
Cathaoirleach

Table of Contents

Committee Membership.....	1
Cathaoirleach’s Foreword	2
Introduction.....	6
Summary of Recommendations and Observations	9
Chapter 6 – Tax Equity and Base Broadening.....	15
VAT Rates.....	15
Chapter 7 – Taxes on Capital and Wealth	18
Capital Acquisitions Tax.....	18
Capital Gains Tax	20
Chapter 8 – Taxes on Retirement Savings.....	22
Chapter 9 – Promoting Enterprise.....	25
Chapter 10: Labour Markets and Social Protection Systems.....	29
Universal Basic Income	31
Chapter 11: Promoting Employment	34
Individualisation of Taxation	34
Coordination of Policy Measures	35
Chapter 12: Inclusive and Integrated Social Protection.....	38
Benchmarking of Income Supports.....	38
Pay Related Benefits	39
Individualisation of Payments	41
Chapter 13: Moving to Low Carbon Economy.....	43
Equalisation of Fuels.....	43
Chapter 14: Land and Property	47
Site Value Tax.....	48

Local Property Tax	50
Chapter 15: Promoting Good Public Health.....	53
Chapter 16: Tax Expenditure Review Process	54
Chapter 17: Modernisation of Tax Administration & Chapter 18: Strategic Reform	57
Appendix 1: List of Witnesses.....	59
Appendix 2: Link To Meeting Transcript	63
Appendix 3: Link To Opening Statements	63
Appendix 4: Commission on Taxation Report	65
Appendix 5: Orders of Reference.....	66

Introduction

The Commission on Taxation and Welfare was established in April 2021 on foot of a recommendation in the Programme for Government⁵. The Commission was asked to review how best the taxation and welfare system can support economic activity and income redistribution, whilst promoting increased employment and prosperity in a resilient, inclusive, and sustainable way and ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term.

The Commission in the introduction to its report, notes that “our taxation and welfare systems are fundamental to our well-being, our standards of living, and our prosperity. They are among the most powerful levers the State can use to deliver economic and social policy to secure our future ... [and]... they represent the obligations that we owe to each other and the protections we pride for each other”.

The Commission further notes that there are significant challenges facing the taxation and welfare system and chief amongst these is the pressure on long term fiscal sustainability, in particular from Ireland’s ageing demographic profile but also from other acute demands, including those related to the carbon transition. Resulting from these, the Commission is convinced that the overall level of revenues raised from taxation and Pay Related Social Insurance (PRSI) as a share of national income will have increase materially over the coming years. Given the magnitude of the issues, the Commission agreed to adopt a net-revenue raising approach which has framed its proposals.

The Commission advises that in the area of taxation they have made proposals to broaden the tax base across most tax heads in order to secure the sustainability of revenues and to increase the overall yield from the least distortionary taxes. In the area of welfare, the Commission advise that they have made proposals to significantly improve the effectiveness of the welfare system through the progressive

⁵ <https://www.gov.ie/pdf/?file=https://assets.gov.ie/130911/fe93e24e-dfe0-40ff-9934-def2b44b7b52.pdf#page=null>

introduction of reforms focused on supporting employment, addressing child poverty and avoiding distorting cliff-edge effects.

With regard to the above the Committee broadly agrees with the Commission's proposals to broaden the tax base in order to secure the sustainability of revenues needed to address future challenges and furthermore agree broadly with the Commission's proposals to aimed at improving the effectiveness of the welfare system. The Committee notes that Commission's acknowledgement that the implementation of its recommendations will require further detailed planning and will reflect prevailing circumstances and it is in this sense that the Committee has sought to add value to some of the recommendations made by the Commission.

In its approach to examining the Commission's report, the Committee set out to invite stakeholders from across various industries, employer bodies, representative groups and non-governmental agencies to examine chapters of the Commission's report and to discuss the recommendations made therein. In doing so, the Committee largely focused on chapter 6 through to chapter 15, as the Committee has and continues to undertake the examination of tax expenditures (Chapter 16) and the modernisation, reform, and scrutiny of tax and fiscal policy more generally (Chapters 17 and 18). However, the Committee nonetheless notes the content and recommendations of chapters 16, 17, and 18 and has made several observations and recommendations in this regard.

The following report provides an overview of the discussions the Committee had with the various stakeholders on the aforementioned chapters of the Commission's report and where references are made to specific recommendations made by the Commission, these recommendations are noted by way of parentheses; for example (6.9), (12.1) etc.

The Committee has not commented on each individual recommendation made by the Commission but has sought to add value to some of the general issues discussed and recommendations made by the Commission.

Recommendations and Observations

1. The Committee broadly agrees with the Commission's proposals to broaden the tax base in order to secure the sustainability of revenues needed to address future challenges and furthermore agree broadly with the Commission's proposals to aimed at improving the effectiveness of the welfare system.

Summary of Recommendations and Observations

1. The Committee broadly agrees with the Commission's proposals to broaden the tax base in order to secure the sustainability of revenues needed to address future challenges and furthermore agree broadly with the Commission's proposals to aimed at improving the effectiveness of the welfare system.
2. The Committee recommends that prior to the consideration of increasing rates of VAT thorough modelling, research and analysis be carried out on the distributional impact of such measures, and that appropriate welfare supports be put in place for those most affected by such VAT increases, in particular lower-income households.
3. The Committee recommends that a review of the VAT treatment of goods and services in Ireland be prioritised to ensure they are in line with EU rules.
4. The Committee recommends that the use of temporary reduced VAT rates should be limited.
5. The Committee agrees with the Commission that the Group A Capital Acquisitions Threshold should be lowered to help achieve greater fairness via vertical equity. The Committee recommends that when setting a reduced threshold for CAT, that consideration be given to linking the rate to a multiple of average earnings, to be reviewed and set annually via the Finance Bill.
6. The Committee recommends that as part of the base-broadening measures such as those mentioned in the Commission's report, that the Department of Finance maximise the utilisation of the Automatic Exchange of Information and the Common Reporting System.
7. The Committee recommends that where proposals to alter the existing capital tax framework are made, thorough analyses are carried out to ensure there are no negative effects on the functioning of the property market.
8. The Committee notes that the report on the Commission on Taxation and Welfare does not address the tax relief disparity that will exist for those currently making pension contributions and those who will be contributing under the new auto-enrolment pension. The Committee recommends that prior to the auto-enrolment scheme coming into effect, that efforts be made to address this inequity. The Committee notes this would be in line with the Commission's

recommendation that anomalies in the tax treatment of different retirement arrangements should be eliminated, as far as possible (8.7).

9. The Committee notes the recent report by the Joint Committee on Social Protection, Community & Rural Development and the Islands, on Pre-Legislative Scrutiny of the General Scheme of the Automatic Enrolment Retirement Savings System Bill 2022⁶, and its recommendation that the “*Department carefully consider tax relief in the General Scheme of the Autoenrollment Bill and its impacts on the wider pension system*”. The Committee reiterates this recommendation.
10. The Committee strongly supports the Commission’s recommendation 8.6 concerning an urgent review of the availability of appropriate and adequate data on the cost and distribution of pension tax expenditures. The Committee recommends that the statutory role of the Office of the Revenue Commissioners be amended to include the collection and provision of policy relevant data on taxes and the taxation system, in particular in relation to tax expenditures.
11. The Committee welcomes the recommendation by the Commission that enhanced relief measures for the R&D tax credit be introduced which are targeted at small and medium sized enterprises, and that greater guidance and supports should be introduced to facilitate greater uptake by SMEs more generally (9.6).
12. The Committee would like to reiterate the recommendations previously made by the Committee in its *Report on Tax Expenditures: Research & Development Tax Credit and Knowledge Development Box*⁷, aimed at supporting and enhancing the role of the R&D credit for SMEs.
13. The Committee recommends that greater levels of research into financing barriers faced by small to medium enterprises be carried out to better address such challenges and to allow for the effective implementation of investment incentives.

6

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7

https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/committee_on_budgetary_oversight/reports/2022/2022-09-22_report-on-tax-expenditures-research-and-development_en.pdf

14. The Committee notes the Commission's recommendation to continue the use of feedback statements and roadmaps which should be applied to indigenous entities and SMEs and welcomes this point (9.2). The Committee recommends that such roadmaps detail potential tax developments over lengthy time horizons so that SMEs can better plan and navigate potential tax reforms into the future.
15. The Committee notes the concerns raised with the proposed use of tax expenditures to promote enterprise and recommends that these should only be considered in line with overall reform and reduction of the use of tax expenditures.
16. The Committee recommends that when considering the Commission's recommendation that those over the State Pension age pay PRSI on all income other than social welfare payments (10.4) and to remove the PRSI exemption on supplementary pension income (10.5), that consideration be given to the effect this may have on older people's financial situations and that a detailed analysis of income replacement rates from all sources of older person's income be carried out. The Committee wishes to highlight the importance that older persons are not adversely affected by these recommendations.
17. The Committee recommends that when considering the Commission's recommendation that those over the State Pension age pay PRSI on all income other than social welfare payments (10.4) and to remove the PRSI exemption on supplementary pension income (10.5), that consideration be given to the effect these would have on work incentives for older people and the impact on those are not entitled the State pension. The Committee wishes to again highlight the importance that older persons are not adversely affected by these recommendations.
18. The Committee recommends that any consideration or analysis of the Commission's recommendation to alter the pensions landscape take into account the impact of the pensions auto-enrolment system due to be introduced from 2024.
19. The Committee notes concerns that Commission's analysis of a proposed UBI (10.8) was based on an insufficient number of studies and recommends that further examination of the proposal be undertaken.
20. The Committee supports the move towards the individualisation of the Standard Rate Cut Off Point but recommends any proposed implementation take into consideration and mitigate against any negative financial consequences for

secondary earners in carer roles in single-earner couples. Any proposed move to individualisation should also take into account the position of older persons at present and those currently close to retirement age.

21. The Committee recognises the need to coordinate and manage the phased introduction of any taxation and welfare reforms and as such supports the Commission's recommendation for the establishment of appropriate coordination mechanisms to monitor the cumulative effect of policy-related labour cost changes on enterprise and the self-employed (11.2).
22. The Committee welcomes the Commission's recommendation that secondary benefits for people of working-age should be designed on a cross-departmental basis to ensure coherence, with negative work incentives minimised, and benefits targeted appropriately and effectively (11.1). This should also apply to benefits for older persons.
23. The Committee notes that its *Report on Indexation of the Taxation and Social Protection System*⁸ examined the issue of benchmarking in detail and considers many of the issues raised by the Commission.
24. The Committee recommends that when considering the Commission's recommendation to undertake a regular benchmarking exercise in respect of all working age income supports, that consideration should also be given to the establishment of a standalone body to carry out periodic, regular evaluations of working age income supports and could be expanded to cover the adequacy of the State Pension also.
25. The Committee welcomes the government's intention to introduce a greater element of pay-related benefits within the Social Insurance system and notes the public consultation on the issues held earlier in 2023. The Committee looks forward to further engagement upon the outcome of this consultation. The Committee also wishes to highlight the possible risks that the "incentive to work" aspects of pay-related benefits may have in excluding those unable to work due to illness, disability, caring duties, migration status and other reasons.
26. The Committee welcomes the Commission's recommendation to progress the individualisation of payments to qualified adults and notes that this system will

8

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better reflect the changing nature of families and the equal division of paid work and care.

27. The Committee notes the Commission's recommendation (13.4) that increases in carbon tax post-2030 should be clearly signalled.
28. The Committee recommends that the impacts of the projected increase in revenues resulting from the EU Emissions Trading System price on the Irish economy and government revenues be taken into consideration when discussing or proposing the budgetary impacts of moving to a low-carbon economy and the recommendations of the Commission.
29. The Committee notes the Commission's recommendations to equalise the rate of excise duty on auto-diesel and petrol (13.2) and to reduce fossil fuel subsidies on a phased basis (13.3).
30. The Committee notes the commission's recommendation to introduce a site value tax but strongly recommends that prior to any such proposal, that a thorough review of such a measure be carried out and that complete, adequate, and appropriate data regarding land values and land holdings be gathered in advance.
31. With regard to land data the Committee notes the Joint Committee on Housing, Local Government and Heritage's recommendation contained in the Report on Pre-Legislative Scrutiny of the Tailte Éireann Bill 2020⁹ that *"Tailte Éireann be given, as one of its statutory functions, responsibility for maintaining a publicly accessible, searchable, electronic register of land transactions that would include the price, location, size, zoning, date of sale and ownership details. This new register would operate on a similar basis to the existing Residential Property Price Register"*.
32. The Committee, in agreement with the Commission, strongly recommends that any proposal to introduce a site value tax includes the condition that differential treatment be applied to agricultural land in active use.
33. The Committee notes the current introduction of the Residential Zoned Land Tax and notes the Commission's remarks that this tax may be subsumed into a Site

9

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Value Tax over time. The Committee is cognisant of the need for a coherent tax policy around land and property and for one that is not unnecessarily administratively burdensome/complex.

34. The Committee recommends that any proposals to amend the structure or the responsibility for the rate-setting of Local Property Taxes must ensure that the role of local government is not diminished.
35. The Committee recommends that prior to any proposal to increase Local Property Tax as recommended by the Commission, consideration be given to the retention and augmentation of a payment deferment system for those on low incomes or those in asset-rich and cash-poor situations. The Committee recommends that a distributional impact assessment be carried out in advance of the consideration of such a system.
36. The Committee recommends that the completion and the publication of the evaluation of the Sugar Sweetened Drinks Tax be prioritised to enable the Department of Finance to effectively consider any proposals to introduce similar measures on health grounds, such as those proposed by the Commission.
37. The Committee welcomes the views of the Commission regarding the tax expenditure review process and agrees with Commission's recommendations on this topic.
38. The Committee wishes to highlight and reiterate its recommendations regarding tax expenditures as set out in its previous reports – Interim Pre-Budget Report 2022, and Report on Tax Expenditures: Research & Development Tax Credit and Knowledge Development Box.
39. The Committee recommends that consideration be given to the inclusion and participation of the Irish Government Economic Evaluation Service in building the capacity and expertise in the evaluation or peer-reviewing of tax expenditures, as mentioned in the Commission's recommendation 16.4.
40. The Committee would like to reiterate its previous recommendation contained in its *Report on Tax Expenditures: Research & Development Tax Credit and Knowledge Development Box*, that the Department recruit the appropriate staff and resources necessary to review the number of tax expenditures, as required under Department of Finance guidelines

Chapter 6 – Tax Equity and Base Broadening

VAT Rates

The Committee notes the Commission's recommendations to increase the reduced Value Added Tax, VAT, rate of 13.5% (6.10) and to increase the VAT rate for those goods and services currently attracting the second reduced rate of 9% to the reduced rate of 13.5% over time (6.9). In this regard it is noted that Ireland is an outlier in Europe due to the extensive use of reduced and zero VAT rates, and both the Organisation for Economic Co-operation and Development, OECD, and the European Commission have recommended broadening the VAT base in order to stabilise VAT revenues. In discussing this the Economic and Social Research Institute, ESRI, advised the Committee that this is likely to be regressive in nature and as such consideration needs to be given to using a small share of the revenue raised for compensation mechanisms through the welfare system.

Dr Micheál Collins of University College Dublin also noted that there is merit in increasing the current reduced rate from 13.5% but advised that as lower income households are more exposed to consumption taxes reform in this area should be gradual and undertaken in the context of broader reform to the adequacy of welfare payments.

Representatives from the Nevin Economic Research Institute, NERI, also agreed with the Commission's recommendations that the 9% and 13.5% VAT rates be merged and progressively increased over time but cautioned that this should begin only when the current inflationary environment returns to target levels, at the earliest. NERI also noted that while consumption taxes are often regressive in themselves, and increasing these rates are likely to be regressive, revenues generated from such increases should be used to support adequacy, equity, and sustainability goals through increased resources for free basic services and for increased income transfers.

In discussing the topic of VAT and broadening the tax base with representatives from the OECD, they too noted that in Ireland there exists a lot of reduced rates and a narrow base. They advised that when considering base-broadening measures more

analysis, in particular distributional analysis, of the impact of such measures would be welcome. They advised that this could be done using household budget survey data.

The Irish Hotels Federation, IHF, in their discussions with the Committee, advised that unlike other sectors, when setting tourism VAT it is essential to take into account the VAT landscape across international competitors. In this regard they noted that in Ireland most tourism VAT receipts arise from transactions made by individuals who are not resident in Ireland and further noted that overseas tourism revenue is discretionary expenditure that is highly mobile and influenced by international competition. They also advised that the 9% rate is the correct one for Ireland in a European context, and should it increase to 13.5% it would place Ireland's VAT rate as the third highest in Europe and put Ireland at a competitive disadvantage.

The Restaurants Association of Ireland, RAI, echoed the Irish Hotels Federation's view and advised that the 9% VAT rate is the correct one for restaurant and hospitality industry as the sector is comprised of vulnerable, low-margin, small-to-medium enterprises, and high energy users. They too noted that increasing the VAT rate to 13.5% will make Ireland the second-highest rate for restaurants and hospitality within the European Union, with only Denmark having a higher rate for these industries.

The Irish Tourism Industry Confederation, ITIC, also shared the concerns raised above and noted the Commission's recommendation that temporary VAT reductions should not be used as short-term stimulus measures. Expanding on this they advised that in their view the 9% VAT rate should be seen as a long-term measure for the tourism industry. All representatives from the tourism and hospitality industry noted to the Committee that they need certainty with the regards the VAT rate that they are to operate under as they need to be able to plan with certainty.

The ESRI also noted the Commission's recommendation that the use of temporary VAT rates as short-term stimulus measures be curtailed (6.11) and advised that there is significant deadweight associated with this practice and there is much international evidence that these reductions are not passed on to consumers.

Representatives from the Irish Tax Institute, ITI, also shared the Commission's concerns in relation to the narrowness of the VAT base, noting that Ireland zero-rates more goods than any other Member state in the EU. They noted that the European Commission has recently moved to provide member states with more flexibility with regard to VAT rates and has updated the list to which reduced rates of VAT can apply. In this regard they note that the updated VAT rules also provide for the phasing out of preferential treatment for environmentally harmful goods such as fossil fuels and advised that now would be an appropriate time to review the VAT treatment of goods and services to ensure our rates are in line with EU rules.

Recommendations and Observations

2. The Committee recommends that prior to the consideration of increasing rates of VAT thorough modelling, research and analysis be carried out on the distributional impact of such measures, and that appropriate welfare supports be put in place for those most affected by such VAT increases, in particular lower-income households.
3. The Committee recommends that a review of the VAT treatment of goods and services in Ireland be prioritised to ensure they are in line with EU rules.
4. The Committee recommends that the use of temporary reduced VAT rates should be limited.

Chapter 7 – Taxes on Capital and Wealth

Capital Acquisitions Tax

In discussing the Commission's recommendations surrounding taxes on capital and wealth the Committee notes the Commission's recommendation to substantially reduce the Capital Acquisitions Tax Group A threshold and bring the Group A threshold closer to the Group B and Group C thresholds (7.4).

Dr Micheál Collins of UCD welcomed these recommendations and noted that they are more concerned with fairness in the intergenerational transfer of resources within our society than about generating a greater yield from capital acquisition tax. In this regard he notes the Commission's remarks that an overall wealth of €335,000 in Ireland would place an individual in the wealthiest 40% on net wealth holders in the State. Dr Collins also advises that there would merit in linking this threshold to average earnings, possibly to two- or three-times average earnings, which would amount to approximately €90,000 to €135,000 and revising it on an annual basis via a provision in the Finance Bill.

The Nevin Economic Research Institute, NERI, also told the Committee that it supports the Commission's recommendation to substantially reduce the Capital Acquisitions Tax Group A threshold. NERI advised that a large majority of households are not adversely affected by the current system and in this regard noted that there exists €1 trillion in net household wealth in Ireland yet the revenue from Capital Acquisitions Tax is minuscule, with effective rates non-existent for many transfers. NERI agreed with the point made by Dr Collins that a system is needed where such rates are effectively benchmarked against something, with annual earnings seen as an appropriate benchmark.

The OECD noted that the Commission's general recommendations that Capital Acquisitions Tax has a broad base and that the tax treatment between different types of gifts and inheritances be more aligned. The OECD also notes that the Commission's report focuses significantly on base-broadening on the capital income side and advised that implementing the Automatic Exchange of Information

represents a great opportunity to broaden the base and strengthen the equity of the tax system.

In discussing the Commission's proposals to lower the CAT Group A thresholds with representatives from the IFA, the IFA advised that they are opposed to any reduction in this threshold or a reduction in the agricultural relief (7.6). They noted that this contradicts previous proposals to raise the Group A threshold to €500,000 and advised that this reflects the reality of inflationary property and land price pressures. They also stated that it is essential that the full economic impact of any proposed amendment is thoroughly understood. They further cautioned that any reduction in the agricultural relief rate would have a disproportionate impact on the farming sector and would be punitive on families trying to organise orderly succession plans.

Representatives from the Irish Property Owners Association, IPOA, also voiced concerns with regards the Commission's recommendations surrounding capital taxes and advised that these would serve as a disincentive to investment in property. They outlined their view that though the Commission disagrees with tax incentives as part of housing policy, it does not address the 0% tax regime utilised by investors. The IPOA also noted that families are often forced to pay large CAT bills on the inheritance of residential property and this forces the sale of such properties. As such, they called for a rebalancing of the tax code to ensure fairness and allow property owners to remain in business and continue to supply much-needed stock.

The Institute of Professional Auctioneers and Valuers, IPAV, also informed the Committee that it is crucial to achieve the correct balance of taxation and to set the correct incentives that will facilitate the growth and adaption needed in Ireland's building stock. In this regard they acknowledged the State needs to raise revenue to address demographic, economic, and climate adaption challenges over the coming decades, but cautioned that placing an excessive burden on the property sector will be counterproductive to Ireland successfully managing these changes. They advised that if government accepts the recommendations of the Commission with regards capital taxes, the tax cost of investing in residential property will increase dramatically and will lead to an increase in landlords leaving the market. Therefore, they advised that if the recommendations were to be implemented, significant breaks

must be encouraged for owners of private residential property to ensure they are retained.

Capital Gains Tax

The Irish Tax Institute, while agreeing that capital taxes should contribute to a broader base and more equitable tax system, voiced concerns regarding the Commission's recommendation that the transfer of assets on a death be treated as a disposal for Capital Gains Tax purposes (7.1). They noted that this would be a major change to the tax code and would require detailed consideration at both a policy and operational level. They advised that, in effect, this would mean two different taxes being levied on the same event which would in many cases result in the Capital Gains Tax payment being offset against the Capital Acquisitions Tax liability and noted that as a result the net revenue gain could be limited. The Irish Tax Institute stressed the need to be wary of unintended consequences arising from the adjustment of tax measures and advised that any proposed tax measure should be thoroughly evaluated prior to its implementation.

The Irish Tax Institute also voiced concerns around the rate of CGT in Ireland and noted that the 33% rate is high when compared with international rates. They advised that a reduction in this rate would improve the environment for start-ups and new businesses, which would increase activity levels within the economy and create employment and a tax dividend for the country, and as such a reduction in the rate of CGT should be looked at as a recommendation.

Recommendations and Observations

5. The Committee agrees with the Commission that the Group A Capital Acquisitions Threshold should be lowered to help achieve greater fairness via vertical equity. The Committee recommends that when setting a reduced threshold for CAT, that consideration be given to linking the rate to a multiple of average earnings, to be reviewed and set annually via the Finance Bill.
6. The Committee recommends that as part of the base-broadening measures such as those mentioned in the Commission's report, that the Department of Finance maximise the utilisation of the Automatic Exchange of Information and the Common Reporting System.

7. The Committee recommends that where proposals to alter the existing capital tax framework are made, thorough analyses are carried out to ensure there are no negative effects on the functioning of the property market.

Chapter 8 – Taxes on Retirement Savings

In discussing Chapter 8, on taxes on retirement savings, Dr Micheál Collins welcomed the decision to dedicate a chapter to this topic and noted that overall, the cost of tax measures in this area, the inequity of their impact, their limited effectiveness and their current and future costs imply it is an area that deserves greater attention and oversight. Dr Collins informed the Committee that he welcomes almost all of this chapter's recommendations and noted they have the potential to reform an expensive and inequitable system. However, he advised there is merit in highlighting three issues. Firstly he noted the high cost of the current system and that this will continue to grow in the coming years, and given the pension policy objectives of poverty avoidance and providing a reasonable standard of living in retirement, it raised a question as to whether there is a more effective and cheaper way of reaching these objectives, whether by the provision of a standard universal pension with the removal of tax expenditure supports or providing tax relief on pensions contributions at a single mid-point rate for all contributors.

Second, Dr Collins noted that the Commission did not address how the auto-enrolment proposal, which is to be introduced, will not provide tax relief on pension contributions to employees who put savings into these funds, yet will continue to do so for other workers making pension contributions, most of whom have higher and more stable incomes. He noted that while this inequity is partially offset by a government-provided top-up, it is still a striking difference.

Third, Dr Collins noted that the Commission's remarks that the work of the Commission was hampered by a lack of data, including in accessing up to date costings for tax expenditures, beneficiary numbers, or getting disaggregated data. In this regard he strongly supports the recommendation to carry out an urgent review of the availability of data on the cost and distribution of pension tax expenditures (8.6). Dr Collins noted that this issue may arise due to the legislative definition of the role of the Revenue Commissioners, which is about the effective administration of the taxation system. However, Dr Collins noted that the collection and provision of policy-relevant data on taxes and the taxation system remains a secondary issue and priority for that organisation. In this regard he suggested that a change in the

statutory definition of the role of the Revenue Commissioners to incorporate formally its data collection, provision and policy process contribution is overdue.

With regard to the lack of data as mentioned in the Commission's report, representatives from the Commission expanded on this and advised the Committee that throughout their report a common remark made was the need for appropriate systems governing the administration or introduction of tax measures, whether they relate to tax expenditures or taxes more generally. They advised that ex-ante consultations, data on which these were based, and sunset clauses are all critical to evaluating tax measures. They particularly noted the lack of data regarding tax expenditures.

In discussions surrounding pension reforms both the Restaurants Association of Ireland and the Irish Hotels Federation noted their support of the proposed auto-enrolment scheme but noted too that it would increase costs for their sectors.

Recommendations and Observations

8. The Committee notes that the report on the Commission on Taxation and Welfare does not address the tax relief disparity that will exist for those currently making pension contributions and those who will be contributing under the new auto-enrolment pension. The Committee recommends that prior to the auto-enrolment scheme coming into effect, that efforts be made to address this inequity. The Committee notes this would be in line with the Commission's recommendation that anomalies in the tax treatment of different retirement arrangements should be eliminated, as far as possible (8.7).
9. The Committee notes the recent report by the Joint Committee on Social Protection, Community & Rural Development and the Islands, on Pre-Legislative Scrutiny of the General Scheme of the Automatic Enrolment Retirement Savings System Bill 2022¹⁰, and its recommendation that the *"Department carefully consider tax relief in the General Scheme of the Autoenrollment Bill and its impacts on the wider pension system"*. The Committee reiterates this recommendation.

¹⁰

https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/joint_committee_on_social_protection_community_and_rural_development_and_the_islands/reports/2023/2023-05-03_report-on-pre-legislative-scrutiny-of-the-general-scheme-of-the-automatic-enrolment-retirement-savings-system-bill-2022_en.pdf

10. The Committee strongly supports the Commission's recommendation 8.6 concerning an urgent review of the availability of appropriate and adequate data on the cost and distribution of pension tax expenditures. The Committee recommends that the statutory role of the Office of the Revenue Commissioners be amended to include the collection and provision of policy relevant data on taxes and the taxation system, in particular in relation to tax expenditures.

Chapter 9 – Promoting Enterprise

Discussing the Commission's recommendations from Chapter 9 of the report – Promoting Enterprise – Dr Seamus Coffey noted the Commission's recommendations surrounding the Research and Development Tax Credit and that enhanced measures be introduced which are targeted at small and medium enterprises, with further guidance and supports to be introduced to facilitate greater uptake of the credit by SMEs more generally (9.6). In this regard the Committee would also like to draw attention to its previous report on Tax Expenditures¹¹ which contained a number of measures aimed at providing SMEs with great access to R&D credits.

The ESRI noted that the Commission placed considerable emphasis on differentiating between taxation measures for large and small firms and they both welcomed and noted this important distinction as it addresses the fact that small firms face very different challenges to larger firms. In discussing R&D aspects, they also suggested that a more targeted R&D instrument for SMEs may help to increase R&D spending and drive productivity-enhancing investments. The ESRI further advised that in general, having differential policies and procedures for small firms throughout the tax system should be a key takeaway from the Commission's report and can help foster enterprise development and job creation.

The ESRI also outlined their support of the entrepreneur's relief and noted that extending this to angel investors (9.5) would allow them to de-risk and become more involved. They noted that the Commission has suggested that more research needs to be done to find out exactly what the financing challenges and barriers are and to examine how to set up that scheme to address issues around SME access to finance.

Ibec broadly welcomed the Commission's recommendations to promote business growth and enterprise, in particular the recommendations aimed at start-ups and SMEs, and the promotion of R&D (9.2, 9.3, 9.4, 9.6, 9.7, 9.8). This was echoed by

¹¹

https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/committee_on_budgetary_oversight/reports/2022/2022-09-22_report-on-tax-expenditures-research-and-development_en.pdf

Chambers Ireland noting they were glad the Commission recommended taxation measures be used to support productivity and employment growth in SMEs, however they cautioned against the proposal that these should be targeted towards early-stage, high-risk, and research and development intensive businesses (9.4). They advised that both areas are important but noted that there is a high rate of failure for high-risk businesses and stated that a broad-based economic growth strategy has a greater chance of growing the corporation tax coming from locally owned companies than a strategy reliant on unicorns.

In discussions around R&D Ibec noted that the R&D credit is very important for their members at all levels, but they also outlined that many of their member companies that conduct research and development and qualify for the credit are not using it due to the difficulty in using the scheme. In this regard they noted that they often hear that the value gained from the credit by a company that does a small amount of R&D might be less than what would be spent claiming it if accountants and others had to be hired. They signalled that this is a genuine difficulty in trying to get firms, particularly SMEs, to use it more.

Discussing the other recommendations made by the Commission, Ibec also welcomed the recommendation supporting the continued use of feedback statements which should be applied better to indigenous entities and SMEs (9.2). They noted that although large corporate taxpayers have roadmaps produced by the Department of Finance that detail what the legislative environment may look like over the short to medium term, SMEs often go from Finance Bill to Finance Bill without a clear indication of proposed changes they are to be subject to. They advised that there needs to be better use of a long-term roadmap to produce a tax scheme prior to the Finance Bills so stakeholders can feed into it. Related to this Ibec also noted that there have been and there are a number of changes coming in the near future, including statutory sick pay, auto-enrolment pensions, consultation on linking social welfare payments to pay, potential changes to the pension age etc, and they advised that these changes would be better implemented with one coherent plan rather than implementing different things at different times. Chambers Ireland echoed this sentiment and noted that the most important thing for businesses is certainty, to be

able to plan ahead, set budgets, pricings and strategies, and that they need to planning timelines that cover more than the budget horizon.

However, not all stakeholders supported the recommendations of the Chapter. The Nevin Economic Research Institute advised that while it broadly welcomes the rest of the report, it does not support this chapter, stating that the other 17 chapters make consistent acknowledgement of the need to minimise tax expenditures and differential tax treatment. This they advised is intellectually inconsistent with the report's stated principles of efficiency and horizontal equity. NERI advised that the disadvantages of tax expenditures (non-transparent, uncertain cost, regressive, economically distortive, characterised by deadweight) are repeatedly set out in the report, and suggest that while in limited and special cases such reliefs may be economically justified, they breach the principles of vertical and horizontal equity and are highly regressive, reduce transparency and are at odds with tax justice and solidarity principles and somewhat undermine the approach taken in the rest of the report.

ICTU also voiced concern at the recommendations made in this chapter and noted that this chapter makes a series of recommendations that endorse and, in some cases, seek to extend a number of generous and costly tax expenditures and low rates for enterprises and high-earning individuals. In this respect they alluded to the recommendations concerning entrepreneur relief (9.5), the special assignee relief programme (9.11), and the limited nature of the recommendations concern the R&D tax credit. This they advised runs counter to the approach taken elsewhere in the report and serves to undermine its overall coherence.

Recommendations and Observations

11. The Committee welcomes the recommendation by the Commission that enhanced relief measures for the R&D tax credit be introduced which are targeted at small and medium sized enterprises, and that greater guidance and supports should be introduced to facilitate greater uptake by SMEs more generally (9.6).

12. The Committee would like to reiterate the recommendations previously made by the Committee in its *Report on Tax Expenditures: Research & Development*

*Tax Credit and Knowledge Development Box*¹², aimed at supporting and enhancing the role of the R&D credit for SMEs.

13. The Committee recommends that greater levels of research into financing barriers faced by small to medium enterprises be carried out to better address such challenges and to allow for the effective implementation of investment incentives.

14. The Committee notes the Commission's recommendation to continue the use of feedback statements and roadmaps which should be applied to indigenous entities and SMEs and welcomes this point (9.2). The Committee recommends that such roadmaps detail potential tax developments over lengthy time horizons so that SMEs can better plan and navigate potential tax reforms into the future.

15. The Committee notes the concerns raised with the proposed use of tax expenditures to promote enterprise and recommends that these should only be considered in line with overall reform and reduction of the use of tax expenditures.

¹²

https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/committee_on_budgetary_oversight/reports/2022/2022-09-22_report-on-tax-expenditures-research-and-development_en.pdf

Chapter 10: Labour Markets and Social Protection Systems

In discussing Chapter 10 of the Commission's report, Dr Aédin Doris noted that the Commission on Taxation and Welfare has made similar recommendations regarding PRSI as those made by the Pensions Commission¹³. In this regard she noted that the Pensions Commission recommended that the age exemption for those over 66 be removed (10.4) and the removal of the exemption on pension income other than the State pension (10.5). She further outlined that the Pensions Commission recommended increasing the rate of self-employed PRSI contribution rate, initially from 4% to 10% and then to the same rate as the Class A employer rate.

Dr Doris also noted that the Commission on Taxation and Welfare recommended applying PRSI contributions to employees earning below the current threshold albeit at a lower rate (10.2). This, she advised, would improve sustainability, and eliminate the problem associated with the current cliff edge of PRSI eligibility.

The ESRI also remarked on these recommendations and advised that the report reiterates findings made by the Commission on Pensions in 2021, that the Social Insurance Fund is likely to come under pressure in the short to medium term due to demographic changes. The ESRI further advised that the Commission's recommendations on PRSI contain a number of measures to broaden the PRSI base and noted that these are in line with recommendation in previous chapters to improve horizontal equity in the tax and welfare system and remove cliff-edges but that they would also increase the revenues of the Social Insurance Fund. In particular the ESRI noted that the Commission recommends introducing PRSI for all earners and abolishing or minimising exemptions based on age or income source (10.3, 10.4, 10.5, 10.6) and advised that these are in line with previous ESRI analysis on broadening the tax base.

Age Action, in their submission to the Committee, also advised that any suggestion of older workers paying PRSI beyond the age of 66 must be accompanied by an opportunity for them to enhance their State Pension income and to access other

¹³ <https://www.gov.ie/pdf/?file=https://assets.gov.ie/200480/564ea175-28b2-417d-aa9b-3f1750225310.pdf#page=null>

social protection income supports. They also noted that the average replacement rate of pensions income in Ireland, at 39%, is significantly below the EU average of 58% and as such, any increase of tax or PRSI on pension incomes has a greater risk of pushing older persons into risk of poverty than might the case in other European countries. Age Action voiced concern around the possibility for inequities between people on private pensions and people on the State pension, and in this regard noted that it is easy to envisage a scenario where an older adult relies on a private pension to reach the same level of income someone receives from the State pension, but the former would be liable for PRSI while the latter would be exempt. In this regard they advised that any change to the PRSI system that would affect older persons must undertake a detailed analysis of the income replacement levels from all sources.

ICTU, in their submission to the Committee, advised that they support the principle of enhanced intergenerational equity to ensure that the future sustainability of the welfare system, including the State pension, is not solely placed on young workers. However, they also raised concerns over the Commission's recommendations that those over the State pension age pay PRSI on all other income other than social welfare payments (10.4). They noted that this could unfairly and disproportionately impact certain groups of older people and they gave the example of pre-1995 civil servants that have no entitlement to the State pension. They noted that many of these retired workers rely on a public sector pension that is less than the value of the State pension, but under this recommendation they would be liable for PRSI on their modest pension, increasing horizontal inequity and their poverty risk.

ICTU further noted that the Commission's recommendation that those over the State pension age pay PRSI on all income other than social welfare payments (10.4) may act as an employment disincentive for older workers, which would conflict with government policy to promote longer working lives.

The INOU also raised concerns surrounding the above recommendation (10.4) in their submission and noted that these would need to be handled with great care. They noted that pro-active State policy to address older people's poverty rates have

had a positive impact, and the introduction of additional PRSI payments on non-social welfare income could prove challenging for some older people.

Universal Basic Income

The Committee notes that the Commission on Taxation and Welfare has advised that it does not support the development of a Universal Basic Income in Ireland (10.8). Social Justice Ireland advised that they disagree entirely with this recommendation and the analysis underpinning it, advising that it contains serious errors of fact and logic.

Elaborating on this, SJI advised the Committee that the Commission's report refers to a 1994 study by the ESRI that found that a tax rate of 65% would be required to finance a basic income system. They noted however that the report does not refer to another study carried out by Professor Charles Clark which found that a full basic income could be delivered for a tax rate of 47%, 48%, or 49% depending on the exact parameters used. They further noted that the Commission's report does not refer to work commissioned by the Steering Group which authored the Government's Green Paper on Basic Income. In this regard they noted that the Steering Group drew up parameters for a full basic income and commissioned both the ESRI and Professor Clark to estimate the tax rate that would be required for this mode. Resulting from this exercise they noted that the ESRI reported that a tax rate of 51.6% would be required whereas Professor Clarke estimate a tax rate of 47.26%. They also outlined that the Steering Group then requested the Department of Finance to estimate the tax rate and they reported that a tax rate of 47.6% would be required, which they then rounded up to 48% and accepted. This figure of 48% is the figure that was quoted in the Green Paper. SJI advised the Committee that given the above, the figure of 65% as used by the Commission is inappropriate and misleading.

Social Justice Ireland further advised the Committee that the Commission's analysis of a proposed UBI contains an error of logic, and in this regard noted that the Commission's report states that "a review of the evidence on universal basic income notes that while smaller basic income trials delivered some positive outcomes with respect to wellbeing, they did not noticeably affect employment or incentives to

work”. SJI suggest that this failure of basic income to increase participation in the paid labour force is assumed in the report to be a disadvantage of basic income, but advise that it fails to acknowledge that both basic income and the current tax/welfare system deliver the same participation in the paid labour force, but basic income also delivers improved wellbeing. SJI contend that the above suggested errors of fact and logic contributed to the dismissal of Universal Basic Income in the Commission’s report and advised the Committee that these errors should be corrected.

The ESRI also commented on the topic of a universal basic income and advised that they have recently undertaken a review of the potential advantages and disadvantages of a UBI policy. In terms of benefits, they noted that a UBI would avoid situations where people choose not to work to retain means-tested benefits, a UBI could give individuals the freedom to turn down or leave insecure, exploitative or low-paid work in pursuit of better employment opportunities, and furthermore, persons in informal and often unpaid work, such as childcare and adult care, would receive some compensation for their labour. In terms of potential disadvantages, the ESRI noted that a UBI may not target those that are most in need as a large percentage of recipients will be high-earning individuals, and furthermore, a UBI is likely to be very expensive. However, the ESRI noted that they have not evaluated UBI as such but did examine evidence from existing pilots.

Chambers Ireland also remarked on UBI and noted that rather than being against the development of a universal basic income, they advised that the evidence base for recommending it has not been developed to an extent that they could recommend such a move.

Recommendations and Observations

16. The Committee recommends that when considering the Commission’s recommendation that those over the State Pension age pay PRSI on all income other than social welfare payments (10.4) and to remove the PRSI exemption on supplementary pension income (10.5), that consideration be given to the effect this may have on older people’s financial situations and that a detailed analysis of income replacement rates from all sources of older person’s income be carried out. The Committee wishes to highlight the importance that older persons are not adversely affected by these recommendations.

17. The Committee recommends that when considering the Commission's recommendation that those over the State Pension age pay PRSI on all income other than social welfare payments (10.4) and to remove the PRSI exemption on supplementary pension income (10.5), that consideration be given to the effect these would have on work incentives for older people and the impact on those are not entitled the State pension. The Committee wishes to again highlight the importance that older persons are not adversely affected by these recommendations.

18. The Committee recommends that any consideration or analysis of the Commission's recommendation to alter the pensions landscape take into account the impact of the pensions auto-enrolment system due to be introduced from 2024.

19. The Committee notes concerns that Commission's analysis of a proposed UBI (10.8) was based on an insufficient number of studies and recommends that further examination of the proposal be undertaken.

Chapter 11: Promoting Employment

Individualisation of Taxation

In discussing Chapter 11 of the Commission's report, various stakeholders commented on the commission's recommendation that there is a move towards individualisation of the Standard Rate Cut off Point as a step towards addressing disparities in the Income Tax system, facilitating increased employment, and decreasing the gap in the employment rate between men and women (11.6). Dr Aedín Doris welcomed this recommendation and advised that any measure that increases the net wage rate for secondary earners, who are often women, tends to increase female participation. This she noted would be beneficial for the sustainability of public finances and could also help to reduce the gender earnings gap. The ESRI also noted that typically secondary workers tend to be women and they have lower potential earnings for a range of reasons, including the gender wage gap, but also due to traditional divisions between work and caring roles. They advised that most European countries are moving to a system of individual taxation from a system of joint taxation and noted that they are doing so to provide a better incentive for the secondary earner in a couple to work, either to join to labour force or if already in the labour force, to work more hours such as moving from part time work to full time work. They advised that in the current situation, where there is a tight labour force, a shortage of workers in certain key occupations, and where the population is ageing, it makes sense to reduce barriers to work.

However, they noted that switching to individual taxation for one-earner couples will have a negative financial impact on them as the secondary earner will no longer be able to share part of his or her standard rate band with the primary earner, which would be an issue for people in carer roles. In this respect they advised that the system could be designed to be revenue neutral and noted that there are better ways to incentivise or pay for those who wish to contribute to the care economy. They noted that joint taxation or partially joint taxation is not in any way dependent on having a child or caring for a person; it is solely dependent on being married and is not the most efficient way to target those people.

NERI, in their submission to the Committee, also agreed with the recommendation to move towards the individualisation of the standard rate cut-off point, SRCO, (11.6) and noted that this could be achieved by either increasing the SRCO point for single people, reducing the SRCO point for married couples, or applying a blended threshold on a revenue-neutral basis.

Age Action however, in discussing the proposed move to the individualisation of taxation, advised that this proposed policy should not be applied to the current generation of older people or those nearing pension age as it would be unfair on those households in which it was necessary for women to give up employment due to cultural norms or a lack of alternatives, and to work in the home in carer roles.

Coordination of Policy Measures

The Committee also heard from stakeholders regarding the Commission's recommendation to establish appropriate coordination mechanisms to monitor the cumulative effect of policy-related labour cost changes on enterprise and the self-employed (11.2). Ibec noted that the cumulative impacts of labour market policy measures are causing concern among their members. They advised that the roll-out of auto-enrolment, the living wage, pensions, statutory sick pay, changes to the pension age, pay-linked social welfare and other proposals will add significantly to labour costs over the coming decade. They further advised that while many of the additions to the social wage have merits on their own terms, if phased correctly, they represent a major change in the Irish labour market model and in this regard, they emphasised to the Committee the importance of this recommendation. Chambers Ireland, in their submission to the Committee, also noted their strong support for the establishment of a coordination mechanism.

In addition to the need for appropriate co-ordination mechanisms as recommended by the Commission (11.2), witnesses also noted the Commission's recommendation that secondary benefits for people of a working age should be designed on a cross-departmental basis to ensure coherence, with negative work incentives minimised and benefits targeted appropriately and effectively (11.1). Dr Aedín Doris highlighted the recommendation and noted that in their research on the possible introduction of a living wage, it was noticeable that in some counties the introduction of a living

wage could make a working parent currently eligible for the Housing Assistance Payment, HAP, ineligible. This, she noted, shows that the current structure of HAP can be a strong disincentive to seeking higher earnings for some parents.

Age Action also supported this recommendation (11.1) and advised that this should be extended to apply to older persons also, as they noted that increases in the State Pension may cause some people to lose the over-70s medical card, which is worth significantly more than a pension increase. ICTU also noted this recommendation (11.1) and advised that because the income thresholds for the New Childcare Scheme income-assessed subsidy is the same for one-parent and couple households, two-earner couples are financially penalised which gives rise to weaker work incentives for the second earner, usually the mother, and they called for this anomaly to be rectified. The INOU too, in their submission to the Committee, advised that amongst the issues that come up in the INOUs work regularly are the fears that people have of losing entitlements if they take up work.

Social Justice Ireland, in their submission to the Committee voiced their disagreement with the Commission's recommendation 11.1, and advised that they do not agree that the provision of social welfare supports should be tied to 'employment activation' and suggested that social welfare and employment are separate policy areas and should be treated as such.

Recommendations and Observations

20. The Committee supports the move towards the individualisation of the Standard Rate Cut Off Point but recommends any proposed implementation take into consideration and mitigate against any negative financial consequences for secondary earners in carer roles in single-earner couples. Any proposed move to individualisation should also take into account the position of older persons at present and those currently close to retirement age.

21. The Committee recognises the need to coordinate and manage the phased introduction of any taxation and welfare reforms and as such supports the Commission's recommendation for the establishment of appropriate coordination mechanisms to monitor the cumulative effect of policy-related labour cost changes on enterprise and the self-employed (11.2).

22. The Committee welcomes the Commission's recommendation that secondary benefits for people of working-age should be designed on a cross-departmental basis to ensure coherence, with negative work incentives minimised, and benefits targeted appropriately and effectively (11.1). This should also apply to benefits for older persons.

Chapter 12: Inclusive and Integrated Social Protection

Benchmarking of Income Supports

In discussing chapter 12 of the Commission's report – Inclusive and Integrated Social Protection – the Committee heard from various stakeholders on the recommendations contained therein.

During discussions surrounding recommendation 12.1, that Government should undertake a regular benchmarking exercise in respect of all working-age income supports (12.1), Dr Aedín Doris suggested that rather than a one-off benchmarking exercise, a standalone body could be established to carry out periodic, regular evaluations of working-age income supports. Dr Doris further noted that this would be similar to the Low-Pay Commission. Dr Doris noted that the Pensions Commission had suggested such a body to evaluate the state pension and advised that a similar body could be established to review working-age income supports.

NERI echoed the call made by Dr Doris and advised that benchmarking should become an ongoing transparent and evidence-led process with sufficient resources provided to an independent advisory body or “benchmarking commission” similar to the Low Pay Commission or the Fiscal Advisory Council.

Both Age Action and the INOU, in their submissions to the Committee, also welcomed the recommendation on benchmarking, with Age Action further advising that the recommendation to benchmark working-age income supports should apply to the State Pension. ICTU also noted in their submission to the Committee that they agree with this recommendation (12.1) and noted that Ireland is unusual in setting income support payment rates without the use of a formula.

Social Justice Ireland noted that they strongly support this recommendation (12.1) and noted that if those dependent on social welfare are not fall behind the rest of society at times of economic growth, the benchmarking of welfare rates to wage rates is essential.

The ESRI also when discussing income adequacy in Ireland, noted that the last benchmarking exercise that was undertaken in Ireland was in the context of budget

2007, and they noted that the Commission has presented evidence that the real value of social welfare payments has fluctuated considerably. They further note that they suggest a new benchmarking exercise in their post-budget analysis in 2022 and advised this would be a useful way of re-establishing the link between these payments and income adequacy.

The Committee wishes to highlight its previous examination of the topic of indexation of the taxation and social protection system and in this regard notes that many of the issues raised by both the Commission and the stakeholders that appeared before the Committee are discussed in the Committee's *"Report on Indexation of the Taxation and Social Protection System"*¹⁴.

Pay Related Benefits

The Committee notes the Commission's remarks on the Government's intention to introduce a greater element of pay-related benefits within the Social Insurance system, and their recommendation that the design of such benefits should take account of incentives to work and the sustainability of the Social Insurance Fund (12.3). The Committee further notes the Commission's remarks that such payments be short in duration, subject to a cap and progressively extended to include maternity, paternity, parents and illness benefit (12.3).

NERI, in their submission to the Committee, also remarked on this recommendation (12.3) and noted that the Commission appeared somewhat lukewarm on the idea and noted that their focus was on the design of such policy proposals. NERI advised that it is their view that the case for pay-related social insurance benefits is stronger than outlined by the Commission. NERI outlined that income-related social insurance provides a form of security that enables people to be less risk averse because they will still be able to maintain their living standards when temporarily out of work. They also noted that the reduction in risk aversion can have a significantly positive effect by pushing people towards newer and better jobs, which reduces over-qualification and ensures better job-matching and better utilisation of human capital.

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https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/committee_on_budgetary_oversight/reports/2022/2022-07-14_indexation-of-the-taxation-and-social-protection-system_en.pdf

They further noted that the reduction in risk aversion also makes people more likely to start a new business or otherwise engage in entrepreneurial activity.

ICTU also voiced their support for this recommendation (12.3) and advised that income protection for workers in Ireland is exceptionally weak by EU standards. They advised that unlike Ireland's subsistence level flat-rate income supports, the European-model of pay related contributory benefits ensures workers can continue to pay their mortgage and other bills, thus maintaining their normal living standards when temporarily out of work. ICTU also noted that pay-related family leave benefits would also support more equal sharing of caring in working families. In this regard they noted that only half of eligible fathers working in the private sector avail of paternity benefit due to the payment's low replacement rate. They advised the average weekly take home pay in the private sector is over 2.5 times the value of the paternity benefit and so unless an employer pays a top-up the average working family will experience a sizeable drop in their household income if both parents avail of maternity and paternity leave.

Dr Aedín Doris also voiced her support for recommendation 12.3 and noted that the introduction of a pay-related element to Jobseekers Benefit would bring Ireland in line with other OECD countries. Dr Doris outlined that most EU countries, the US, and Canada have unemployment benefit systems that link the benefit entitlement to previous earnings and the underlying idea is that an insurance-based system should insure individuals against extreme earnings losses, and a flat rate-system, as in Ireland, only succeeds in doing this for very low-wage workers. Dr Doris further noted that linking benefits to previous earnings would allow better-paid individuals to take on more risk in their labour market decisions, for example by joining start-up companies with a high failure risk. It would also prevent unemployed individuals from rushing into making a decision about taking up the first available job. Dr Doris noted that labour economists emphasize the importance of good labour market matches between workers and employers – good matches greatly enhance productivity. In this regard Dr Doris noted there are good, efficiency-based reasons for cushioning the blow of job loss by relating unemployment payments to previous earnings. However, she also noted and agreed with the Commission's emphasis that such a

component be carefully designed, as any increase in benefit entitlement will reduce the incentive to find work to some extent.

Social Justice Ireland too welcomed recommendation 12.3 but voiced concern around the concentration on “incentives to work” and the risk this may have in excluding those groups who cannot work due to illness, disability, caring duties, migration status or other reasons.

Individualisation of Payments

In discussing recommendation 12.6, that the individualisation of payments made to qualified adults be progressed, and guided by the principles outlined by the Commission, Age Action noted that the aim of greater gender equality underpinning this recommendation is important. They advised the Committee that the current State Pension system reinforces gender inequality, with women often receiving lower incomes than men as “qualified adults”, rather than recipients in their own right. However, they further advised that any move to individualisation should not lead to anyone receiving a lower social insurance income than they currently receive.

Social Justice Ireland also advised the Committee that they support the individualisation of the social welfare system (12.6) and noted that the issue of individualising social welfare payments so that all recipients receive their own social welfare payments has been on the policy agenda in Ireland and across the EU for several years. They advised that at present, the welfare system provides a basic payment for a claimant, whether that be for a pension, disability payment, or jobseekers. It then adds an additional payment of about two-thirds of the basic payment for the second person. In this regard SJI noted that this disadvantages those living as a couple as they would receive a lower income than they would were they to live apart. SJI believe that this is unfair and inequitable and that the system as currently structured is not compatible with the Equal Status Acts 2000-2018. They further noted that women are often disadvantaged by living as part of household unit because they receive a lower income.

The Committee notes the Commission remarks that there are ongoing developments in the area of social welfare individualisation and notes the Commission reference to

the Roadmap for Social Inclusion 2020-2025¹⁵, and the Government's commitment to examine the feasibility of individualising welfare payments with a view to reducing co-dependency and improving employment and earnings outcomes. The Commission also notes the report of the Citizens Assembly on Gender Equality¹⁶ which called for a fully individualised social welfare system to reflect the diversity of today's lives and to promote an equal division of paid work and care.

Recommendations and Observations

23. The Committee notes that its *Report on Indexation of the Taxation and Social Protection System*¹⁷ examined the issue of benchmarking in detail and considers many of the issues raised by the Commission.

24. The Committee recommends that when considering the Commission's recommendation to undertake a regular benchmarking exercise in respect of all working age income supports, that consideration should also be given to the establishment of a standalone body to carry out periodic, regular evaluations of working age income supports and could be expanded to cover the adequacy of the State Pension also.

25. The Committee welcomes the government's intention to introduce a greater element of pay-related benefits withing the Social Insurance system and notes the public consultation on the issues held earlier in 2023. The Committee looks forward to further engagement upon the outcome of this consultation. The Committee also wishes to highlight the possible risks that the "incentive to work" aspects of pay-related benefits may have in excluding those unable to work due to illness, disability, caring duties, migration status and other reasons.

26. The Committee welcomes the Commission's recommendation to progress the individualisation of payments to qualified adults and notes that this system will better reflect the changing nature of families and the equal division of paid work and care.

¹⁵

<https://www.gov.ie/pdf/?file=https://assets.gov.ie/46557/bf7011904ede4562b925f98b15c4f1b5.pdf#page=null>
<https://www.gov.ie/pdf/?file=https://assets.gov.ie/46557/bf7011904ede4562b925f98b15c4f1b5.pdf#page=null>

¹⁶ <https://citizensassembly.ie/wp-content/uploads/2023/02/report-of-the-citizens-assembly-on-gender-equality.pdf>

¹⁷

https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/committee_on_budgetary_oversight/reports/2022/2022-07-14_indexation-of-the-taxation-and-social-protection-system_en.pdf

Chapter 13: Moving to Low Carbon Economy

In discussing Chapter 13 of the Commission's report, the ESRI noted the Commission's recommendation that the phased increase in carbon tax to €100 per tonne by 2030 be implemented (13.1) and advised that their research has shown that this has the potential to reduce emission by 16% by 2030 when compared with the absence of an increase. The associated economic costs of this increase are limited, they advised, with an estimated cumulative decrease in real GDP by 2030 of 1.4% and a 2% decrease in real government revenues. However, they noted if carbon revenues are recycled to reduce other taxes in the economy, their analysis found an increase in GDP as well as reduced emissions. As part of the above recommendation, the Commission also recommends that increases in carbon tax post-2030 should be clearly signalled and linked to the societal cost of carbon. Expanding on this the Climate Change Advisory Council (CCAC) noted that Ireland has an exemption from the recently agreed buildings and roads emission trading system up to 2030 but consideration will have to be given to the approach after that date.

Equalisation of Fuels

The CCAC also noted the Commission's recommendation to equalise the rate of excise duty on auto-diesel and petrol in the short to medium term (13.2) and advised that their research shows an almost 4% decrease in emissions, a 0.3% decrease in real GDP and a negligible impact on real government revenues by 2030.

Though not discussed in the Commission's report, the ESRI note that the EU Emissions Trading System, ETS, price will be of importance for the Irish economy and the government budget. They advise that the EU ETS price is projected to increase to approximately €430 by 2030 and should this be realised, it will have considerable impacts on the Irish economy and government revenues. They further note that although this policy is determined at EU level, they believe the associated impacts for Ireland should be considered in more detail. The Climate Change Advisory Council also noted that the ETS is a market driven mechanism which

governments do not control and noted that the ETS price has gone from €5, €6, and €7 to significantly high levels at present.

The Irish Farmers Association, when discussing Chapter 13 of the report, noted the Commission's recommendation that fossil fuel subsidies should be reduced on a phased basis over time (13.3). The Committee notes that the Commission's report states that the focus here is on tax-related fossil fuel subsidies that take the form of tax expenditures, three of which are in the top ten expenditures by cost – the reduced rate of excise duty on kerosene, marked gas oil, and auto-diesel. The Commission notes that these are calculated on the basis that the rate of excise duty applied is lower than the benchmark of the rate of excise duty applied to unleaded petrol.

The IFA advised that if marked gas oil, MGO or agricultural diesel were to be equalised to the level of unleaded petrol, it would see at least an extra 50 cent a litre added to the price of MGO. This they noted would mean an extra cost of over €570 million with the majority of this impacting Irish agriculture. They noted that agriculture is a business with tight margins and the difference between being viable and unviable is small. Relating to this the Committee notes the Commission's acknowledgement of the potential impacts this recommendation might have as they state they "that there may be a case for supporting individuals, households and businesses in situations where the removal of these fossil fuel subsidies, such as on kerosene and MGO, would otherwise result in significant increases in cost where alternatives are not readily available or affordable".

TASC also remarked on these recommendations (13.2, 13.3) and advised that these policies should be designed in a manner that address underlying inequalities, with targeted measures to be introduced alongside green taxation and subsidy removal to fully protect and support lower income households and those living in or at risk of energy poverty.

The Irish Road Haulage Association also remarked on the Commission's chapter 13 recommendations and advised the Committee that there is a strong sense among their members that there is a stubborn and unreasonable resistance by think-tanks,

including the Commission, to accept the reality that the vehicles used in the sector to transport the nations goods will remain powered by diesel in the medium term at least. They advised that despite promises of evolving technologies whether from gas, hydrogen, or electric, real progress in rolling out these technologies is a long way off, with most still at design stage and lacking the practical application to be an effective substitute for diesel. They noted that while they wish this were different, it means there is nothing to be gained from taxing or penalising diesel use by HGVs in circumstances where there are no realistic and substitutable alternatives. The Commission acknowledges this in their report and state that “*while the lack of alternatives may remain an issue for business, the continuation of the lower rate of Excise Duty applied to auto-diesel is not justified from an environmental perspective or on public health grounds*”. The Commission further adds that the equalisation of the rate of duty with that applied to petrol has the potential to prompt investment in and the development of suitable alternatives for heavy commercial vehicles.

The ESRI also noted the Commission’s recommendation that fossil fuel subsidies should be reduced on a phased basis over time, with the aim of ensuring that the taxation of fuel reflects the amount of carbon emitted (13.3). In this regard they noted that their research shows that the full removal of fossil fuel subsidies has a similar impact on emissions to the planned carbon tax increase, with an estimated 16% decrease in emissions by 2030. In terms of the fossil fuel subsidies to households in the form of fuel allowances, they advise that the removal of these subsidies has negligible economic and emission reduction impacts as there are not directly related to energy use. However, they advised that this is a highly regressive policy given poorer households would face large negative impacts.

Recommendations and Observations

27. The Committee notes the Commission’s recommendation (13.4) that increases in carbon tax post-2030 should be clearly signalled.

28. The Committee recommends that the impacts of the projected increase in revenues resulting from the EU Emissions Trading System price on the Irish economy and government revenues be taken into consideration when discussing or proposing the budgetary impacts of moving to a low-carbon economy and the recommendations of the Commission.

29. The Committee notes the Commission's recommendations to equalise the rate of excise duty on auto-diesel and petrol (13.2) and to reduce fossil fuel subsidies on a phased basis (13.3).

Chapter 14: Land and Property

In discussing the Commission's recommendations on land and property, the ESRI noted that the Commission suggests the deployment of a taxation system for housing that is longer term in nature, acts to stabilise prices and discourages the use of measures that act to stimulate the construction sector on a short-term basis. They welcomed this transition as they noted the considerable volatility that has been a feature of the Irish housing market for the past two decades, in terms of observed prices and rents, as well as new supply. They noted the core element of this transition is a refocusing on taxes on immovable property rather than property transfers which the Commission states will improve efficiency and reduce inequality.

The OECD also noted that property taxes can play an important role because of their comparatively less distortive economic effects compared with other types of taxes and because of their good properties from an equity point of view. They further noted that empirically, they have been found to be among the least damaging taxes for long-run growth in GDP per capita. However, they also advised that such taxes can be under-used and poorly designed and, in this regard noted an OECD report¹⁸ which outlines that in some OECD countries the property values used for property taxes are very outdated, resulting in reduced revenue potential. They outlined that they have seen a significant increase in house prices, yet property tax revenues have not kept up with the increase in property values. As such the representatives from the OECD agree with the Commission's recommendation for regular revaluations.

During its engagement with representatives from the Commission, the Committee heard that Ireland currently raises about 6% from taxes on wealth generally as compared with 66% on taxes on labour and the Commission advised that this balance needs to shift but stated that they are not prescriptive about the extent but as a matter of principle the direction of travel needs to move towards assets and wealth. They also noted that over 50% of wealth is held through homes and about 70% in property, with private residences forming a large part of the capital base of

¹⁸ <https://www.oecd-ilibrary.org/sites/03dfe007-en/index.html?itemId=/content/publication/03dfe007-en>

the country. They further added that if the balance is to be shifted from income towards wealth, it is very hard to do so fairly without including property and land, given the distribution and more importantly, the composition of wealth in this country.

The Commission representatives also advised that there is a need to move away from a situation where there is the Local Property Tax, commercial rates, the Residential Zoned Land Tax, and Land Value Sharing, and to think about how all these different measures interact together. In this regard the Committee notes that it is important that the taxation system surrounding land and property does not become overly burdensome and does not result in unintended and unwanted consequences, incentives or disincentives,

Site Value Tax

In discussing the recommendation to introduce a Site Value Tax (14.1), the Commission noted that land, whether it is residential or not, is a key part of the base on which we put taxation. Adding to this the Commission noted that a Site Value Tax is a stable, recurrent and predictable way of bringing in revenue, promotes the efficient use of land and is progressive. They advised that land-based taxes, including the local property tax and a site value tax, are two of the levers which they have outlined in their report as a means of both stabilising and expanding the tax base.

The ESRI note the Commission's recommendation to introduce a site or land value tax aimed at increasing the efficiency of the land market, supporting land density, and encouraging productive land usage. This, they advised, would be important as a tool to activate housing supply, however they also advised that the major challenge in introducing such a tax would be how to design and calibrate the measure, including deciding the rates to be set and exemptions to be applied. In this regard they advised that it would be essential to bridge the data gaps in terms of the land market and land holdings and that a more detailed review would be needed.

Social Justice Ireland, SJI, in their appearance before the Committee also welcomed the Commission's recommendation to introduce a site value tax, and as mentioned by the ESRI, noted that it would have a positive influence on incentivising the use of

land rather than leaving land unoccupied and unused. They noted the Commission's qualifications that there should be differential treatment in the application of a site tax to agricultural land (14.2).

Dr Micheál Collins also welcomed the Commission's recommendations regarding the proposal for a site value tax and remarked that this would represent a welcome move away from the current and outdated and unsustainable commercial rates system and would better incentivise the efficient use of land, particularly serviced urban land and underutilised agricultural land. He noted that the Commission's report highlights the challenges of introducing such a measure but advised that it is a feasible one and like the introduction of the property tax, can be achieved.

The Irish Tax Institute also noted that there is merit in considering such a measure as a replacement for the existing commercial rates system but advised that care would need to be taken in designing such a measure to ensure that less profitable activities, which are valued by communities, would not become uneconomic as a result of the operation of a site value tax.

The Restaurants Association of Ireland also noted their support for the introduction of a site value tax and the proposal that it replace the commercial rates system over time. In this regard they advised that the commercial rates system is outdated and needs an overhaul in how they are calculated.

The Irish Farmers Association also noted the Commission recommendation to introduce a site value tax (14.1) and, in particular the recommendation that there should be differential treatment in the application of Site Value Tax to agricultural land (14.2). However, they advised the Committee that they strongly oppose the inclusion of agricultural land with the remit of a proposed Site Value Tax. In this regard they noted that one of the justifications provided by the Commission for a site value tax is to support achieving housing objectives, however they remarked that farmers hold land to farm and not to hoard it as an investment. They noted that overall, the site value tax is a huge worry and could lead to the selling of farmland and advised that an exemption from such a tax would be beneficial to the sector.

They further noted that agricultural land was exempt from the Vacant Site Levy and as such noted that the precedent for exemptions is there.

Representatives from the Commission advised that when considering a site value tax, it should be borne in mind that the most effective taxes are those that have the widest possible scope in principle, and in this regard the thinking of the Commission was that everything would come within the scope of consideration in the context of land and property taxes. However, they did inform the Committee that they were acutely conscious of the particular issues raised in the context of agricultural land. In this regard they noted that there is a very specific context for agricultural land and that must be part of the planning and design, and as a result they have made specific mention in their recommendation on site value tax that an allowance should be made for agricultural land and that it should be treated differently from other land.

Local Property Tax

In discussing the Commission's recommendation surrounding Local Property Tax, Dr Micheál Collins noted the recommendation that the ability of local authorities to decrease the basic rate of LPT be removed (14.4). Dr Collins noted that currently local authorities can deviate their local property tax upwards or downwards by 15% and advised that this is an important issue to retain and should not be removed from local authorities. Elaborating on this Dr Collins noted that the previous Commission on Taxation linked this tax to the funding and decision-making of local authorities to the strengthening of the role of local government and also linked the local communities who pay these property taxes with their local councils and local services.

The Nevin Economic Research Institute also spoke on the issue of Local Property Tax and agreed with the Commission that it should be increased, made progressive and should contain surcharges for vacancy and non-principle private residences whether for the owner or a registered tenant. NERI also noted the Commission's recommendation that LPT rate-setting by local authorities be restricted but noted that the recommendation states that local authorities should lose the ability to reduce the rate but not necessarily lose the ability to increase it. This, they said, would result in the rate becoming the floor but the capacity would still exist for democratic

engagement at local level to allow decisions to be made. NERI further advised that they are conscious of people that are asset-rich and income-poor in situations where an increase in property tax may negatively affect them and noted that a deferment system could be introduced where the deferred amount plus interest could be payable on the sale or transfer of a property. This would resolve the hardship issue and protect government revenue over the longer term. Social Justice Ireland also raised the potential for a deferral mechanism for those who are asset-rich but cash-poor whereby they could defer payment to the estate or to such a time where it would be more appropriate in terms of their income. They signalled they would be in favour of such a measure.

The Irish Tax Institute also noted their agreement with the Commission that the tax base, rates, exemptions, and deferrals should be kept under constant review to ensure that they are up to date and reflect current circumstances.

Recommendations and Observations

30. The Committee notes the commission's recommendation to introduce a site value tax but strongly recommends that prior to any such proposal, that a thorough review of such a measure be carried out and that complete, adequate, and appropriate data regarding land values and land holdings be gathered in advance.

31. With regard to land data the Committee notes the Joint Committee on Housing, Local Government and Heritage's recommendation contained in the Report on Pre-Legislative Scrutiny of the Tailte Éireann Bill 2020¹⁹ that *"Tailte Éireann be given, as one of its statutory functions, responsibility for maintaining a publicly accessible, searchable, electronic register of land transactions that would include the price, location, size, zoning, date of sale and ownership details. This new register would operate on a similar basis to the existing Residential Property Price Register"*.

32. The Committee, in agreement with the Commission, strongly recommends that any proposal to introduce a site value tax includes the condition that differential treatment be applied to agricultural land in active use.

¹⁹

https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/joint_committee_on_housing_local_government_and_heritage/reports/2021/2021-12-06_report-on-pre-legislative-scrutiny-of-the-general-scheme-of-the-tailte-eireann-bill-2020_en.pdf

33. The Committee notes the current introduction of the Residential Zoned Land Tax and notes the Commission's remarks that this tax may be subsumed into a Site Value Tax over time. The Committee is cognisant of the need for a coherent tax policy around land and property and for one that is not unnecessarily administratively burdensome/complex.

34. The Committee recommends that any proposals to amend the structure or the responsibility for the rate-setting of Local Property Taxes must ensure that the role of local government is not diminished.

35. The Committee recommends that prior to any proposal to increase Local Property Tax as recommended by the Commission, consideration be given to the retention and augmentation of a payment deferment system for those on low incomes or those in asset-rich and cash-poor situations. The Committee recommends that a distributional impact assessment be carried out in advance of the consideration of such a system.

Chapter 15: Promoting Good Public Health

In discussing the Commission's Chapter 15, on Promoting Good Public Health, the Irish Heart Foundation noted their support for the Commission's recommendation that the government develop fiscal measures which could encourage a reduction in the consumption of ultra-processed foods and promote healthier eating (15.2). In this regard the Irish Heart Foundation noted that fiscal measures are not a solution in isolation but are an important part of a large portfolio of policy measures, particularly when designed with public health in mind like the sugar sweetened drinks (SSD) tax. They noted that the SSD tax was based on the UK's Soft Drinks Industry Levy and given that Ireland's beverage markets are integrated with the UKs, similar effect from the tax and levy are likely. Expanding on this they noted that within a year of its introduction in the UK, the total sugar sold in soft drinks decreased by 35.4%, with over 45,000 tonnes of sugar removed from sale and a calorie reduction of 6,500 calories per UK resident. They further advised that it has been five years since the SSD tax was introduced in Ireland and an evaluation of the measure has still not been published by the Department of Health.

Recommendations and Observations

36. The Committee recommends that the completion and the publication of the evaluation of the Sugar Sweetened Drinks Tax be prioritised to enable the Department of Finance to effectively consider any proposals to introduce similar measures on health grounds, such as those proposed by the Commission.

Chapter 16: Tax Expenditure Review Process

Although the Committee did not hold specific meetings with stakeholders on Chapter 16 of the Commission's report, issues surrounding tax expenditures were raised throughout the Committee's engagement on the report and have been examined on a number of occasions in previous Committee reports.

In discussing tax expenditures with representatives from the Commission, the Committee heard that with regard to particular kinds of tax expenditures, one of the issues they found across their report was that they were lacking data. They informed the Committee that they would have liked to have more data on Capital Gains Tax and Capital Acquisitions tax and how they operate, as well as more data on the principal private property tax and on the pensions provision. They noted their terms of reference to specifically examine the process around tax expenditures and they advised that they did a stand-back system-based review rather than looking at particular tax expenditures. In this regard they advised that their recommendations are aimed at the process and the system generally. They further advised that one principle that cuts across the report is that unlimited tax expenditures are problematic.

The representatives from the Commission detailed to the Committee the importance of data around tax expenditures. In this regard they noted that it is critically important to understand not just when tax expenditures are used, but also how they are used and whether they are achieving their objectives, and that further data is needed on this. They also advised that sunset clauses are critically important so that there are compulsory reviews of tax expenditures. The Commission also remarked that prior to the introduction of a tax expenditure, a thorough market failure analysis should be carried out, as tax expenditures narrow the base and the more they are utilised the more they are going to destabilise the base from which revenues are drawn. In addition, they noted that once a tax expenditure has become embedded in the system, they can be difficult to remove and one way to make this removal easier would be through having undertaken a fully justified expenditure analysis at the beginning of the process and linking this to future reviews.

In addition to the issues surrounding tax expenditures raised by the Commission above, the Committee also wishes to highlight examinations of this topic it has undertaken previously. In this regard the Committee notes that it has previously committed to examining tax expenditures on a regular basis and has published reports and associated recommendations in July 2021²⁰ and more recently in September 2022²¹.

The Committee highlights that it has previously heard from stakeholders on the topic that there is a need for greater information, oversight and scrutiny of tax expenditures as well as greater availability and transparency of information around tax expenditures, a call which has been echoed by the Commission.

The Committee further notes the Commission's recommendation (16.4) of the "expansion of dedicated economic evaluation capacity within the Department of Finance to work specifically on tax expenditures with the aims of providing more and better information on tax expenditures and introducing a degree of rigour and consistency in the quality of the evaluation process. This evaluation work should also be peer-reviewed by an appropriate outside body". Relating to this, the Committee notes that it has previously heard suggestions from the ESRI that the development of capacity and expertise in scrutinising tax expenditures could be achieved via the development of expertise within the Irish Government and Economic Evaluation Service, IGEES. The Committee also notes that the IGEES could play a role in building capacity for the examination and evaluation of tax expenditures.

Recommendations and Observations

37. The Committee welcomes the views of the Commission regarding the tax expenditure review process and agrees with Commission's recommendations on this topic.

²⁰

https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/committee_on_budgetary_oversight/reports/2021/2021-07-29_interim-pre-budget-report-2022_en.pdf

²¹

https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/committee_on_budgetary_oversight/reports/2022/2022-09-22_report-on-tax-expenditures-research-and-development_en.pdf

38. The Committee wishes to highlight and reiterate its recommendations regarding tax expenditures as set out in its previous reports – Interim Pre-Budget Report 2022, and Report on Tax Expenditures: Research & Development Tax Credit and Knowledge Development Box.

39. The Committee recommends that consideration be given to the inclusion and participation of the Irish Government Economic Evaluation Service in building the capacity and expertise in the evaluation or peer-reviewing of tax expenditures, as mentioned in the Commission's recommendation 16.4.

40. The Committee would like to reiterate its previous recommendation contained in its *Report on Tax Expenditures: Research & Development Tax Credit and Knowledge Development Box*, that the Department recruit the appropriate staff and resources necessary to review the number of tax expenditures, as required under Department of Finance guidelines

Chapter 17: Modernisation of Tax Administration & Chapter 18: Strategic Reform

Although the Committee did not hold stakeholder meeting specifically on chapters 17 and 18 of the Commission's report, the Committee has considered the issues raised within them.

As outlined by the Commission, modernisation of the tax system will require digital transformation across the system (17.1). In this regard the Committee notes that as technological advances continue to develop at pace, so too must the development of appropriate and up-to-date systems of tax administration. However, the Committee is conscious also of the changing demographic profile in the State and in this regard wishes to highlight the importance of providing supports and alternatives to address digital exclusion, as recommended by the Commission (17.8).

The Committee has previously commented on the importance of the annual budgetary cycle and continues to work to improve the discussion and promote public awareness of the long-term issues as outlined by the Commission (18.1).

The need for better access to data was also outlined to the Committee throughout its engagements, and has been referred to in the Committee's previous work. Greater access to anonymised data (18.5) and support for research into the distribution of income and wealth (18.6) should be facilitated.

A number of stakeholders outlined to the Committee the usefulness of roadmaps to provide certainty for individuals and businesses, supporting the Commission's recommendation for their greater use (18.3).

The Irish Tax Institute outlined the need for more stakeholder consultation on any proposed changes to the tax system. In this regard they noted that this has worked well in relation to the corporation tax roadmap, and they noted that more stakeholder consultation leads to better legislation. They advised that currently, tax changes are implemented via the Finance Bill which is quite condensed and leaves limited time for consultation. They advised the Committee that they currently have a forum where they engage with Revenue called the tax administration liaison committee, TALC,

which is focused on the administrative aspect of the tax system but would welcome an equivalent forum focused on tax policy formation.

Recommendations and Observations

42. The Committee supports the recommendations in Chapters 17 and 18 of the Commission's report and believes their implementation will improve the overall taxation and welfare system.

43. The Committee recommends that prior to any proposed changes to the tax and welfare system coming into effect, that such proposals be subject to adequate stakeholder and public consultation periods.

Appendix 1: List of Witnesses

Wednesday 09 November 2022

The Economic and Social Research Institute

- Ms Karina Doorley, Senior Research Office, Tax, Welfare and Pensions
- Ms Martina Lawless, Research Professor, Competitiveness, Trade and FDI
- Mr Conor O'Toole, Associate Research Professor, Macroeconomics

Social Justice Ireland

- Dr Séan Healy, Chief Executive Officer
- Ms Collette Bennet, Economic and Social Analyst

Nevin Economic Research Institute

- Dr Tom McDonnell, Co-Director

University College Dublin

- Dr Micheál Collins, Assistant Professor of Social Policy

Wednesday 16 November 2022

Organisation for Economic Co-operation and Development

- Ms Sarah Perret, Head of Personal and Property Taxes Unit, Centre for Tax Policy and Administration
- Mr Burt Brys, Head of the Country Tax Policy and Personal and Property Taxes units, Centre for Tax Policy and Administration

The Irish Tax Institute

- Ms Anne Gunnell, Director of Tax Policy & Representations
- Mr Brian Brennan, Council Member of the Irish Tax Institute

Wednesday 23 November 2022

The Irish Farmers Association

- Ms Rose Mary McDonagh, Farm Business Chair
- Dr Shane Whelan, Senior Policy Executive
- Mr Tim Cullinan, President

The Institute of Professional Auctioneers and Valuers

- Mr Pat Davitt, CEO
- Mr John Kennedy, Vice President

The Irish Property Owner's Association

- Ms Mary Conway, Chairperson
- Mr Tom O'Brien, Committee Member

The Irish Hotels Federation

- Ms Mary Conway, Chairperson
- Mr Tom O'Brien, Committee Member
- Mr Tim Fenn, Chief Executive

The Restaurants Association of Ireland

- Mr Adrian Cummins, CEO

The Irish Tourism Industry Confederation

- Mr Eoghan O'Mara Walsh, CEO

Wednesday 25 January 2023**The Economic and Social Research Institute**

- Dr Karina Doorley, Senior Research Officer, Tax, Welfare and Pensions
- Prof. Seamus McGuinness, Research Professor and the Research Area Co-ordinator for Labour Market Research
- Prof. Conor O'Toole, Associate Research Professor, Macroeconomics

University College Cork

- Mr Seamus Coffey, Economist, Cork Business School

National University of Ireland, Maynooth

- Dr Aéidin Doris, Department of Economics

Wednesday 08 February 2023**The Irish Business and Employers Confederation**

- Mr Gerard Brady, Head of National Policy and Chief Economist

Chambers Ireland

- Mr Ian Talbot, Chief Executive
- Mr Shane Conneely, Director of Policy

Wednesday 15 February 2023**The Irish National Organisation of the Unemployed**

- Mr Robbert Lynch, Manager of the Welfare to Work Section
- Ms Bríd O'Brien, Head of Policy and Media

Social Justice Ireland

- Dr Séan Healy, Chief Executive Officer
- Ms Susanne Rogers, Research and Policy Analyst
- Ms Colette Bennett, Economic and Social Analyst

Age Action

- Dr Nat O'Connor, Policy Specialist
- Ms Mary Murphy, Research Officer

Wednesday 22 February 2023**Nevin Economic Research Institute**

- Dr Tom McDonnell, Co-Director
- Mr Ciarán Nugent, Economist
- Mr Chris Smart, Economist

The Irish Congress of Trade Unions

- Dr Laura Bambrick, Social Policy Officer
- Mr Ger Gibbons, Social Policy Officer

Wednesday 01 March 2023 - Climate and Health (Chapters 13 and 15)**Climate Change Advisory Council**

- Ms Marie Donnelly, Chairperson
- Prof John Fitzgerald, Council Member

The Economic and Social Research Institute

- Dr Kelly de Bruin, Senior Research Officer
- Dr Niall Farrell, Senior Research Officer

Wednesday 08 March 2023 - Climate and Health (Chapters 13 and 15)

Think Tank for Action on Social Change

- Dr Robert Sweeney, Head of Policy
- Ms Roisin Greaney, Research and Community Engagement Coordinator – Climate Justice
- Dr Adeelia Goffe, Senior Researcher, Health Inequalities

Irish Road Haulage Association

- Mr Eugene Drennan, President
- Mr John Nolan, Secretary
- Mr Paul Jackman, Management Team

Irish Farmers Association

- Mr Tim Cullinan, President
- Ms Rose Mary McDonagh, IFA Farm Business Chair
- Mr Karol Kissane, IFA Policy Executive

Wednesday 19 April 2023 – Health (Chapter 15)

Irish Heart Foundation

- Mr. Chris Macey, Director of Advocacy

Wednesday 10 May 2023

The Commission on Taxation and Welfare

- Professor Niamh Moloney, Chair
- Mr Philip Kermode
- Dr Barra Roantree
- Ms Anne Vaughan
- Mr Colm O'Reardon, Secretary to the Commission
- Ms Sinead Ryan

- Mr Colin O'Connor
- Mr Gary Hynds

Appendix 2: Link To Meeting Transcript

- [Wednesday, 09 November 2022](#)
- [Wednesday, 16 November 2022](#)
- [Wednesday, 23 November 2022](#)
- [Wednesday, 25 January 2023](#)
- [Wednesday, 08 February 2023](#)
- [Wednesday, 15 February 2023](#)
- [Wednesday, 22 February 2023](#)
- [Wednesday, 01 March 2023](#)
- [Wednesday, 08 March 2023](#)
- [Wednesday, 19 April 2023](#)

Appendix 3: Link To Opening Statements

- [Dr Karina Doorley, Senior Research Officer, Economic and Social Research Institute](#)
- [Dr Micheál Collins, Assistant Professor of Social Policy, UCD](#)
- [Dr Tom McDonnell, Co-Director, Nevin Economic Research Institute](#)
- [Dr Seán Healy, CEO, Social Justice Ireland](#)
- [Ms Anne Gunnell, Director of Tax Policy and Representation, The Irish Tax Institute](#)
- [Ms Sarah Perret, Head of the Personal and Property Tax Unit, The Organisation for Economic Co-operation and Development](#)
- [Adrian Cummins, CEO, Restaurants Association of Ireland](#)
- [Mary Conway, Chairperson, Irish Property Owners' Association](#)
- [Tim Cullinan, President, Irish Farmers' Association](#)
- [Pat Davitt, Chief Executive, Institute of Professional Auctioneers and Valuers](#)

- [Denyse Campbell, President, Irish Hotels Federation](#)
- [Eoghan O'Mara Walsh, CEO, Irish Tourism Industry Confederation](#)
- [Dr. Aedín Doris, Department of Economics, Maynooth University](#)
- [Seamus Coffey, Lecturer in Economics, University College Cork](#)
- [Dr. Karina Doorley, Senior Research Office, Tax, Welfare and Pensions, Economic and Social Research Institute](#)
- [Ian Talbot, Chief Executive, Chambers Ireland](#)
- [Gerard Brady, Head of National Policy and Chief Economist, Irish Business and Employers Confederation](#)
- [Dr. Seán Healy, CEO, Social Justice Ireland](#)
- [Bríd O'Brien, Head of Policy and Media, Irish National Organisation of the Unemployed](#)
- [Mary Murphy, Research Officer, Age Action Ireland](#)
- [Ger Gibbons, Social Policy Officer, The Irish Congress of Trade Unions](#)
- [Dr. Tom McDonnell, Co-director, The Nevin Economic Research Institute](#)
- [Dr. Kelly de Bruin, Senior Research Officer, Economic and Social Research Institute](#)
- [Marie Donnelly, Chairperson, Climate Change Advisory Council](#)
- [Dr. Rob Sweeney, Head of Policy, The Think tank for Action on Social Change](#)
- [Tim Cullinan, President, Irish Farmers' Association](#)
- [Eugene Drennan, President, The Irish Road Haulage Association](#)
- [Mr. Chris Macey, Director of Advocacy, The Irish Heart Foundation](#)

Appendix 4: Commission on Taxation Report

[Link to Full Report of the Commission on Taxation and Welfare](#)

[Link to Executive Summary of Report of the Commission on Taxation and Welfare](#)

Appendix 5: Orders of Reference

219. (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;
- (iv) general fiscal governance including the application of fiscal rules and risks to the fiscal position; and
- (v) matters arising from the introduction of a supplementary Estimate or Estimates that, in its opinion, have or may have significant budgetary implications: Provided that the Committee shall advise the appropriate Committee or Committees of any decision on its part to undertake such consideration and the reason or reasons therefore;

(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;
- (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; and

- (iii) the adequacy of planned and actual aggregate levels of capital expenditure and the policies and practices in relation to capital expenditure, including public procurement policy and public private partnership policy, intended to ensure the achievement of value for money.
- (c) Exchequer receipts policy.

(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 Cathaoirleach of the Committee shall consult with the relevant sectoral Committee established pursuant to Standing Order 95.

(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 Committee on Standing Orders and Dáil Reform for that Committee's consideration under Standing Order 119(1)(b): Provided that, in so doing, the Committee shall consult with—

- (a) the Committees established pursuant to Standing Order 95 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 Committee on Standing Orders and Dáil Reform.

(4) The Committee shall have the following powers:

- (a) power to send for persons, papers and records as defined in Standing Orders 96(3) and 99;
- (b) power to take oral and written evidence and submissions as defined in Standing Order 96(1) and (2);

- (c) power to appoint sub-Committees as defined in Standing Order 96(4);
- (d) power to engage consultants as defined in Standing Order 96(14);
- (e) power to travel as defined in Standing Order 96(15).

(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 106 shall apply to the Committee

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