Remarks to the Oireachtas Select Committee on Budgetary Oversight on the topic of Chapters 6, 7, 8 and 14 of the Report of the Commission on Taxation and Welfare

5:30pm on Wednesday November 9th 2022, LH2000, Leinster House, Kildare Street, Dublin 2

By Dr Micheál Collins, Assistant Professor of Social Policy, University College Dublin.

Chairman, I thank yourself and the committee for the invitation to make a presentation on this topic. My name is Dr Micheál Collins, I am an Economist and Assistant Professor of Social Policy, at the School of Social Policy, Social Work and Social Justice at University College Dublin. I was also a member of the previous (2008-2009) Commission on Taxation, and within the Commission chaired the subgroup which examined Tax Expenditure. As a researcher, I am also part of an international research group focused on the links between taxation and social policy and within that I frequently focus on various equity principals including those associated with taxation measures related to income, consumption, wealth, tax expenditure supports for pension savings, and land taxation; topics address by the chapters you are considering this evening.

At the outset, I want to welcome the focus that this Committee is giving to the recent report of the Commission on Taxation and Welfare. Its report, in my opinion, represents an important contribution to the policy formation process for our societal redistributive systems over the next decade or two. The Commission was given an ambitious terms of reference alongside an ambitious timeline; and while I would not agree with everything they have concluded, overall they have done a very competent job and provided a realistic and evidence-based review of the present system and a clear set of signposts for reform.

I am framing my brief remarks on Chapters 6, 7, 8 and 14 of the Commission's report in the context of three views of the current Irish taxation system:

- That the system will need to collect a greater proportion of national resources in the medium-term;
- That there is potential to make reforms to the current system so that it becomes fairer; and

- That there is merit in broadening the tax base so that taxation can be shifted away from labour to other areas.

On Chapter 6 Tax Equity and Base Broadening

I welcome all of the recommendations of the Commission in this chapter as I think they represent a set of proposals that would notably improve the taxation system and the recurring examination of it by Committees such as this one. However, let me briefly focus on three points:

(i) The report recommends (6.4) that the High Income Earner Restriction is broadened to include more tax expenditure measures, and I would encourage this – as I have via previous contributions to this Committee. As part of that reform, I would stress the importance of including the tax expenditure measures associated with pension savings within the restriction.

(ii) The recommendations to frequently review the tax expenditures associated with VAT (6.8, 6.9 and 6.10) are welcome and in the context of a shift away from labour taxes there is merit in increasing the current reduced rate from 13.5 per cent. However, given that lower income households, many in retirement or exclusively dependent on welfare supports, tend to consume most of their income and are by definition more exposed to consumption taxes, reform here needs to be slow and undertaken in the context of broader reforms to the adequacy of welfare payments.

(iii) I support the idea of introducing an accommodation tax (Recommendation 6.12) and would suggest that the ability to set this be allocated to local authorities and that the revenue generated by it be earmarked by local authorities for investment in new or improved cultural amenities.

However, within its assessments of income, capital, wealth and equity, the Commission's report does not address the recent phenomenon of very high earnings and the new and stark income and wealth inequalities these earnings are generating. Although there are small numbers of super high-earners, and any new income taxation measures would generate relatively small amounts of overall revenue for the state, there is a strong case on the basis of societal fairness and harmony for a new high marginal income tax rate on earnings above a certain threshold of annual income – say €1.3m (€25,000 per week).

Unfortunately, many companies are now no longer able to regulate pay levels and pay differentials within their own organisations, and as a consequence there is a role for the income taxation system to intervene.

On Chapter 7 Taxes on Capital and Wealth

The approach taken by the Commission in this area is also most welcome – they are correct to identify the potential to raise more recurring revenue from capital and wealth and that the best starting point is via reforms to the existing taxes on capital gains, inheritances and residential property. As a member of the 2008-09 Commission on Taxation, and in various contributions since, I was of the opinion that reforms to these taxes would mitigate the need for introducing a recurring net wealth tax – a view I still hold.

I will focus on just two of the recommendations in this chapter:

(i) The Commission recommends (7.2) that Capital Gains Tax relief on Principal Private Residences be restricted over time and points towards charging a small rate on these gains as the most equitable approach. I believe that this is a welcome proposal, one that would be most beneficial in bringing greater stability to long-term house prices rather than raising revenue. It may be that the gains could be offset, or partially offset, where people are using the proceeds to buy a new home. The Commission is also correct to emphasis the need to increase the yield from the Local Property Tax as the more pressing priority.

(ii) The recommendation (7.4) to reduce the Group A inheritance tax-free threshold from its current level of €335,000 is also welcome. Reforms to this threshold are more about fairness in the intergenerational transfer of resources within our society than about generating a greater yield from Capital Acquisitions Tax. The Commission's text on pages 142-143 is telling regarding the generosity of this current threshold, it states: "*In 2020, an overall wealth of €335,000 would have placed an individual within the wealthiest 40 per cent of the net wealth holders in the State*". I believe there is merit in linking this threshold to average earnings, say 2-3 times average earnings which is about €90,000 to €135,000, and revising it automatically each year via a provision set out in a Finance Bill. Deferral mechanisms would also need to be provided for some families, as per the established procedures for the Local Property Tax or Fair Deal scheme. Post-reform, the prospect of a substantial tax free inheritance would still remain.

On Chapter 8 Taxes on Retirement Savings

The decision by the Commission to allocate an entire chapter to the tax measures provided for retirement saving is telling and most welcome. I have engaged with this Committee in the past on the topic of the tax expenditure measures in this area. Overall, the cost of these measures, the inequity of their impact, their limited effectiveness, and their current and expected future cost implies it is an area that deserves greater oversight and attention.

The Commission's report points towards the annual costs of tax reliefs and savings supports in this area heading towards approximately €3.4 billion per annum once the Auto Enrolment system has been introduced (p 155, 156, 158). It is worth putting that figure in the context of the many other areas of public expenditure examined by this Committee. Based on the Budget 2023 annual current and capital expenditure allocations[1], an annual figure of €3.4 billion is more than the entire expenditure of each of twelve Government Departments, it is much the same as the annual expenditure by the Department of Transport and only Health, Social Protection, Education, Further and Higher Education, and Housing spend more each year.

I welcome almost all of the Commission's recommendations in this chapter, overall they have the potential to reform an expensive and inequitable system and bring the tax relief measures used to encourage pension savings closer to tax deferral measures; something they are far from currently. However, I believe there is merit in highlighting three issues:

(i) The cost of this system is very high and will continue to grow in the years to come. Given pension policy objectives on poverty avoidance and providing the expectation of a reasonable living standard in retirement, it raises the question as to whether there is a more effective and cheaper way of reaching these objectives. At the least that implies some consideration of decreasing the costs

[1] See DPER *Budget 2023 Expenditure Report* p7-8.

of the system though, say, providing tax relief on pension contributions at a single mid-point rate for all contributors. It may also highlight considerations of providing an enhanced universal pension to all those in retirement and simultaneously removing tax expenditure supports for pension savings. Certainly, it is hard to argue that the current system is an effective and efficient use of state resources.

(ii) The Commission did not address how the Auto Enrolment proposal, which is about 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. While this inequity is partially offset by a Government provided top-up to Auto Enrolment savings, it is still a striking difference. Should we not treat all retirement saving the same?

(iii) Section 8.5.5 highlights the data gaps regarding the ability to understand and review this area of tax expenditure. I strongly support this recommendation (8.6), indeed it reflects points I have made to this Committee in the past. It may be that the issue arises from the current legislative definition of the role of the Revenue Commissioners which is about the effective administration of the taxation system – something it does very well. However, the collection and provision of policy relevant data on taxes and the taxation system remains a secondary issue and priority for that organisation, and the consequences of this are reflected in many of the recurring tax policy design struggles encountered by the Commission and by those working on taxation issues including officials in the Department of Finance and the Parliamentary Budget Office. A change in the statutory definition of the role of the Revenue Commissioners to formally incorporate its data collection, provision and policy process contribution is overdue.

On Chapter 14 Land and Property

I welcome almost all of the proposals from the Commission in their chapter examining the taxation of land and property. I agree that the Local Property Tax should be retained, frequently rebased and increased in time. Their proposal for a Site Value Tax, or Land Value Tax, on all other land makes a lot of sense and would represent a welcome move away from the current outdated and unsustainable commercial rates system as well as better incentivising the efficient use of land, particularly serviced urban land and under-utilised agricultural land. The proposals for higher rates for vacant sites and units, and for second homes is also welcome and overdue.

However, I believe there is merit in highlighting two issues:

(i) The Commission recommends that the ability of local authorities to deviate their rates of Local Property Tax (14.4) or any new Site Value Tax (section 14.3.3.5) should be restricted. Currently, local authorities can deviate their Local Property Tax up or down by up to 15 per cent. I believe this is an important measure to retain and it should not be removed from local authorities. The 2008-09 Commission on Taxation, in its work on designing the Local Property Tax, specifically linked the tax to the funding and decision making of local authorities so as to assist in strengthening the role of local Government. Making decisions on how much to collect, and what services to provide and/or reduce, is an important area of accountability for local authorities and their annual decisions on the setting of the Local Property Tax force elected councillors, and council officials, to engage on these issues. They also better link the local communities who pay these property taxes with their local councils and local services. While decisions do give rise to some boundary or border issues between local authorities, these are small prices to pay for further enhancing of the role of local Government.

(ii) The Commission's report highlights the challenges of introducing any new Site Value Tax. However, while that challenge is substantial, and their will be inevitable resistance to change, it is a feasible reform and one which, like that of introducing a Local Property Tax, can be achieved.

Chairman, I will complete my remarks there and I look forward to engaging with the committee on the issues raised.