Opening Statement by Social Justice Ireland to the Select Committee on Budgetary Oversight on the 9th November 2022.

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Social Justice Ireland welcomes the opportunity to speak to the Committee today on Chapters 6, 7, 8 and 14 of the Report of the Commission on Taxation and Welfare (the Report) and thanks the Chair for the invitation. While we have confined our statement to the Chapters specified, we would welcome the opportunity to engage further with the Committee on other aspects of the Report.

When the Commission was established, we welcomed it and, in particular, its broad remit which reflected an understanding of the integrated nature of the taxation and welfare systems in the lives of individuals, families, companies and communities and the importance of Government policy being framed in this overall context.

Social Justice Ireland has an established record of engaging on policy issues regarding the taxation system and the welfare system. These form central components of our annual Socio-Economic Review, Social Justice Matters, our annual pre-budget Budget Choices document and our annual post-budget Budget: Analysis and Critique publication. Frequently, these topics also frame our annual Social Policy Conference, and associated publication, and our regular engagements with Oireachtas Committees, Political Parties and national bodies such as NESC.

Tax Equity and Base Broadening

We welcome the inclusion in Chapter 6 of the need to broaden the tax base. The need for a wider tax base is a lesson painfully learned by Ireland during the last economic crisis. A disastrous combination of a naïve housing policy, a failed regulatory system, and foolish fiscal policy and economic planning caused a collapse in exchequer revenues. *Social Justice Ireland* believes that it is only through a strategic and determined effort to reform Ireland's taxation system that these mistakes can avoided in the future. The narrowness of the Irish tax base resulted in almost 25 per cent of tax revenues disappearing, plunging the exchequer and the country into a series of fiscal policy crises. Tax revenues collapsed from over €63bn in 2007 to a low of €47.4bn in 2010; it has since increased exceeding 2007 levels in 2016 and reaching just over €80bn in 2019. This recovery, while both significant and remarkable, has also been fuelled by short-term windfall revenue from a small number of multi-national companies.

Government decisions to raise or reduce overall taxation revenue needs to be linked to the demands on its resources. These demands depend on what Government is required to address or decides to pursue. The effects of the economic crisis a decade ago, and the way it was handled, also carry significant implications for our future taxation needs. The rapid increase in our national debt, driven by the need to borrow both to replace disappearing taxation revenues and to fund emergency 'investments' in the failing commercial banks, has increased the on-going annual costs associated with servicing the national debt. Similarly, the need for the state to rescue or support so many aspects of our economy and society during the Coivd-19 pandemic has triggered large scale borrowing and future liabilities to both service and repay this debt.

Ireland's national debt increased from a level of 24 per cent of GDP in 2007 - low by international standards - to peak at 119.9 per cent of GDP in 2013. Documents from the Department of Finance, to accompany Budget 2021, indicate that debt levels fell to 57 per cent of GDP (€204 billion) in 2019 but will rise to at least 66.6 per cent of GDP (€240 billion) during 2021. The unpredictable nature of the pandemic, and the likely challenging recovery from it, suggest that the national debt may climb further in the immediate years ahead. The large revision in GDP for 2015 has had a significant effect on this debt indicator. Despite favourable lending rates and payback terms, there remains a recurring cost to service this debt – costs which have to be financed by current taxation revenues. The estimated debt servicing cost for 2021 is €4.5bn.

These new future taxation needs are in addition to those that already exist for funding local government, repairing and modernising our water infrastructure, paying for the health and pension needs of an ageing population, paying EU contributions and funding any pollution reducing environmental initiatives that are required by European and International agreements. Collectively, they mean that Ireland's overall level of taxation will have to rise significantly in the years to come – a reality Irish society and the political system need to begin to seriously address.

How much should Ireland collect in taxation?

Social Justice Ireland believes that, over the period ahead, Ireland's fiscal policy should include a core focus on increasing Ireland's overall tax-take. Previous benchmarks, identifying approximately how much should be collected, were set relative to the overall proportion of national income collected in taxation, but have become redundant following recent revisions to Ireland's GDP and GNP levels as a result of the tax-minimising operations of a small number of large multinational firms. Consequently, an alternative benchmark is required and *Social Justice Ireland* developed its policy position on this benchmark in 2018.

We have proposed a new tax take target set on a per-capita basis; an approach which minimises some of the distortionary effects that have emerged in recent years. Our target is calculated using CSO population data, ESRI population projections, and CSO and Department of Finance data on recent and future nominal overall taxation levels. The target is as follows:

> **Ireland's overall level of taxation should reach a level equivalent to €15,000 per capita in 2017 terms. This target should increase each year in line with growth in GNI*.**

In comparing our target to the Budget 2021 expectations of the Department of Finance, and calculating the overall tax gap for the economy; the difference between the level of taxation that is proposed to be collected and that which would be collected if the *Social Justice Ireland* target was achieved in 2021 terms was €5.4 billion, and the average gap over the period 2019-2021 was €6 billion per annum.

As part of our calculations, we have adjusted the expected Department of Finance tax take to remove an estimate of the windfall short-term corporate taxes the state is currently receiving; revenues which are likely to go elsewhere as the broader OECD and EU reforms of corporate taxation regimes advances. We have chosen a conservative figure of €4.5billion to make this adjustment – following the ongoing increase in the scale of these ever-growing windfall gains, we will be revising up this figure in our 2022 revisions.

Increasing the overall tax take to this level would require a number of changes to the tax base and the current structure of the Irish taxation system, which we will address shortly. Increasing the overall taxation revenue to meet this new target would represent a small overall increase in taxation levels and one which we believe is unlikely to have any significant negative impact on the economy. However, it would require careful management, particularly as the windfall revenues from multi-national firms recede.

Social Justice Ireland believes that the taxation system should be reformed such that Ireland develops a tax package which places less emphasis on taxing people and organisations on what they earn by their own useful work and enterprise, or on the value they add or on what they contribute to the common good. Rather, the tax that people and organisations should be required to pay should be based more on the value they subtract by their use of common resources. Whatever changes are made should also be guided by the need to build a fairer taxation system; one which adheres to our already stated core policy objective.

There are a number of approaches available as part of reforming the tax base. Recent Budgets have made some progress in addressing some of these issues while the 2009, and indeed 2022, Commission on Taxation Report highlighted many areas that require further reform. We will provide a short review of the areas dealt with in the chapters under consideration as follows:

- Minimum Effective Tax Rates for Higher Earners
- Corporation Taxes
- Site Value Tax
- Second Homes
- Empty Houses and Underdeveloped Land
- Taxing Windfall Gains
- Financial Transactions Tax

Some of our other recommendations fall within other chapters of the Commission's report and we look forward to engaging with the Committee on these chapters separately.

Minimum Effective Tax Rates for Higher Earners

The suggestion that it is the better-off who principally gain from the provision of tax exemption schemes is reflected in a series of reports published by the Revenue Commissioners entitled Effective Tax Rates for High Earning Individuals and Analysis of High Income Individuals' Restriction. These reports provided details of the Revenue's assessment of top earners in Ireland and the rates of effective taxation they incur. The reports led to the introduction of a minimum 20 per cent effective tax rate as part of the 2006 and 2007 Finance Acts for all those with incomes in excess of €500,000. Subsequently, Budgets have revised up the minimum effective rate and revised down the income threshold from where it applies – reforms we have welcomed as necessary and long-overdue. Most recently, the 2010 Finance Bill introduced a requirement that all earners above €400,000 pay a minimum effective rate of tax of 30 per cent. It also reduced from €250,000 to €125,000 the income threshold where restrictions on the use of tax expenditures to decrease income tax liabilities commence.

We use the 2020 Revenue Commissioners analysis of the operation of these new rules below, which is for the tax year 2018. The findings of that analysis for the 97 individuals with income in excess of €400,000 who were subject to the restriction is included in our submission to the Commission, appended to this Statement. It shoes that less than 10 individuals had an effective tax rate of between 45 and 50 per cent, while 77 had a rate between 35 and 45 per cent. The Revenue Commissioners' report also includes information on the distribution of effective income tax rates among the 261 earners subject to the restriction and with incomes between €125,000 and €400,000, which shows that 15 individuals have an effective rate of less than 15 per cent.

Social Justice Ireland welcomed the introduction of this scheme which marked a major improvement in the fairness of the tax system. The published data indicate that is seems to be working well; however, there are still surprisingly low effective income taxation rates being reported.

Social Justice Ireland believes that it is important that Government continues to raise the minimum effective tax rate so that it is in line with that faced by PAYE earners on equivalent high-income levels. Following Budget 2023 a single individual on an income of €120,000 gross will pay an income tax and USC effective tax rate of 39.7 per cent (down from 42.9 per cent in 2014); a figure which suggests that the minimum threshold for high earners has potential to adjust upwards over the next few years. We also believe that Government should reform the High-Income Individuals' Restriction so that all tax expenditures are included within it. The restriction currently does not apply to all tax breaks individuals avail of, including pension contributions.

It is regrettable that the Commission did not make such a recommendation.

Corporation Taxes

Over the past few years there has been a growing international focus on the way multi-national corporations (MNCs) manage their tax affairs. The OECD's Base Erosion and Profits Shifting (BEPS) examination has established the manner and methods by which MNCs exploit international tax structures to minimise the tax they pay. Similarly, the European Commission has undertaken a series of investigations into the tax management and tax minimisation practices of a number of large MNCs operating within the EU, including Ireland. The European Parliament's Special Committee on Tax Rulings has also completed a review of the EU tax system and highlighted its problems and failures.

Given the timeliness and comprehensiveness of this work, it is important that it leads to the emergence of a transparent international corporate finance and corporate taxation system where multinational firms pay a reasonable and credible effective corporate tax rate. We welcome progress towards this over the past year, and the acceptance by the Irish Government that the system needs to change albeit that this will result in lower corporate tax revenues to the exchequer in the years to come.

Site Value Tax

We welcome the Commission's recommendation to introduce a Site Value Tax, something we have advocated for for many years.

Taxes on wealth are minimal in Ireland. Revenue is negligible from capital acquisitions tax (CAT) because it has a very high threshold in respect of bequests and gifts within families and the rates of tax on transfers of family farms and firms are very generous. Some recent Budgets have extended the Group A (parent to child) CAT threshold and the likely future revenue from this area remains limited given the taxes current structure. The requirement, as part of the EU/IMF/ECB bailout agreement, to introduce a recurring property tax led Government in Budget 2012 to introduce an unfairly structured flat €100 per annum household charge as subsequently a value-based Local Property Tax in Budget 2013. While we welcome the overdue need to extend the tax base to include a recurring revenue source from property, we believe that a Site Value Tax, also known as a Land Rent Tax, would be a more appropriate and fairer approach.

Social Justice Ireland believes that the introduction of a site value tax would be a better alternative than the current Government value based local property tax. A site value tax would lead to more efficient land use within the structure of social, environmental and economic goals embodied in planning and other legislation.

Second Homes, Empty Houses and Underdeveloped Land

A feature of the housing boom of the early 2000s was the rapid increase in ownership of holiday homes and second homes. For the most part these homes remain empty for at least nine months of the year. It is a paradox that many were built at the same time as the rapid increases in housing waiting lists.

Preliminary results from Census 2022 identified that the number of vacant houses on Census night was 166,752, a vacancy rate of 7.8 per cent of all housing stock, that could act as the main accommodation for an individual or family. Given that there is always some 'natural' turnover in the housing market, the true 'empty' figure is somewhat lower but still very significant.

What is often overlooked when the second home issue is being discussed is that the infrastructure to support these houses is substantially subsidised by the taxpayer. Roads, water, sewage and electricity infrastructure are just part of this subsidy which goes, by definition, to those who are already better off as they can afford these second homes in the first place. *Social Justice Ireland* believes that people purchasing second houses should have to pay these full infrastructural costs, much of which is currently borne by society through the Exchequer and local authorities. There is something perverse in the fact that the taxpayer subsidies the owners of these unoccupied houses while many people do not have basic adequate accommodation.

In the context of an ongoing shortage of housing stock, building new units is not the entire solution. There remains a large number of empty units across the country, something reflected in the aforementioned 2022 Census data. *Social Justice Ireland* believes that policy should be designed to reduce the number of these units and penalise those who own units and leave them vacant for more than a six-month period. We proposed that Government should introduce a levy on empty houses of €200 per month with the revenue from this charge collected and retained by local authorities.

Local authorities should also be charged with collecting an enhanced site value tax on underdeveloped land, such as abandoned urban centre sites and land-banks of zoned land on the edges of urban areas. This tax should be levied at a rate of €2,000 per hectare (or part thereof) per annum. Income from both measures should reduce the central fund allocation to local authorities.

Taxing Windfall Gains

The vast profits made by property speculators on the rezoning of land by local authorities was a particularly undesirable feature of Ireland's boom-bust land price cycle. For some time, *Social Justice Ireland* has called for a substantial tax to be imposed on the profits earned from such decisions. Re-zonings are made by elected representatives supposedly in the interest of society generally. It therefore seems appropriate that a sizeable proportion of the windfall gains they generate should be made available to local authorities and used to address the ongoing housing problems they face. In this regard, *Social Justice Ireland* welcomed the decision to put such a tax in place in 2010, following Recommendations from the 2008.09 Commission on Taxation, and strongly condemned its removal as part of Budget 2015. Its removal has been one of the most retrograde policy initiatives in recent years.

Social Justice Ireland believes that this tax should be re-introduced. Taxes are not just about revenue, they are also about fairness.

Financial Transactions Tax

As the international economic chaos of the past decade has shown, the world is now increasingly linked via millions of legitimate, speculative and opportunistic financial transactions. Similarly, global currency trading increased sharply throughout recent decades. It is estimated that a very high proportion of all financial transactions traded are speculative which are completely free of taxation.

Transactions in these markets represent a mixture of legitimate, speculative and opportunistic financial transactions. Estimates continue to highlight that a very large proportion of these activities are speculative, implying that large and growing amounts of these transactions make no real or worthwhile contribution to economies and societies beyond increasing risk and instability. Taken together, the daily value of international trading in foreign exchange and interest rate derivatives markets is more than 31 times the annual GDP of Ireland, more than four times that of the UK, and almost 60 per cent of annual GDP in the USA. On an annualised basis, Irish based trading in foreign exchange markets is equivalent to 676 per cent of GDP while trading in interest rate derivatives are equivalent to 685 per cent of the annual value of GDP.

Social Justice Ireland regrets that to date Government has not committed to supporting recent European moves to introduce a Financial Transactions Tax (FTT) or Tobin Tax and that the Commission's report did not recommend it. The Tobin tax, first proposed by the Nobel Prize winner James Tobin, is a progressive tax, designed to target only those profiting from speculation. It is levied at a very small rate on all transactions but given the scale of these transactions globally, it has the ability to raise significant funds. In September 2011 the EU Commission proposed an FTT and its proposal has evolved since then through a series of revisions and updates.

Policy makers need to be reminded that the core argument for these taxes is that they are in the broader interest as they dampen irrelevant and unnecessary financial speculation and thereby underpin the stability of European states. For societies an FTT is a win-win; less needless financial speculation and more state revenue.

Building a Fairer Taxation System

Social Justice Ireland believes that this should be a central objective of the current reform of the taxation system. This can be achieved through a series of reforms, which are set out in our submission to the Commission and appended to this statement:

- Standard rating discretionary tax expenditures
- Favouring fair changes to income taxes
- Introducing Refundable Tax Credits
- Reforming individualisation
- Making the taxation system simpler

While some of the above is dealt with in other chapters of the Commission's Report, and we would welcome the opportunity to engage further with the Committee in its consideration of those chapters, the central tenet is one of fairness. A key reform in this regard would be to make the system simpler, and so that is the area I will concentrate on in this statement.

Ireland's tax system is not simple. In fact elements of it have been referred to as among the most complex in the world. The reasons given to justify this complexity vary but they are focused principally around the need to reward particular kinds of behaviour which are seen as desirable by legislators. This, in effect, is discrimination either in favour of one kind of activity or against another. There are many arguments against the present complexity and in favour of a simpler system.

Discriminatory tax concessions in favour of particular positions are often very inequitable, contributing far less to equity than might appear to be the case. In many circumstances they also fail to produce the economic or social outcomes which were being sought and sometimes they even generate very undesirable effects. At other times they may be a complete waste of money, since the outcomes they seek would have occurred without the introduction of a tax incentive. Having a complex system has other down-sides. It can, for example, have high compliance costs both for taxpayers and for the Revenue Commissioners.

For the most part, society at large gains little or nothing from the discrimination contained in the tax system. Mortgage interest relief, for example, and the absence of any residential or land-rent tax contributed to the rise in house prices up to 2007. Complexity makes taxes easier to evade, invites consultants to devise avoidance schemes and greatly increases the cost of collection. It is also inequitable because those who can afford professional advice are in a far better position to take advantage of that complexity than those who cannot. A simpler taxation system would better serve Irish society and all individuals within it, irrespective of means.

Conclusion

Our engagement here today is informed by a vision of a fairer Ireland where human rights are respected, human dignity is protected, human development is facilitated, and the environment is respected and protected.

We believe that this vision reflects a society that most Irish citizens would aspire to living in. To achieve this vision, we have proposed a framework that identifies five key policy outcomes: a Vibrant Economy; Decent Services and Infrastructure; Just Taxation; Good Governance; and Sustainability, and sets out key areas for action within each. It is through a simultaneous and coordinated pursuit and achievement of these five key policy outcomes that our vision of a fairer Ireland can be achieved.

Social Justice Ireland's submission to the Commission on Taxation and Welfare may be accessed here:

https://www.socialjustice.ie/publication/social-justice-irelands-submission-commission-taxation-and-welfare