Irish Tax Institute

Opening Statement to the Oireachtas Committee on Budgetary Oversight on the Report of the Commission on Taxation and Welfare

16 November 2022

We thank the Committee for your invitation to attend your meeting this evening to discuss the Report of the Commission on Taxation and Welfare.

The Commission has produced a comprehensive and thought-provoking report that deserves the attention of all who take an interest in public policy.

The Institute broadly welcomed the Report's recommendations, many of which echo suggestions we made in our submission to the Commission last January. Central to the Commission's approach was its guiding objective of broadening the tax base, within and across tax heads while also being conscious of the principle of equity.

This resonates very strongly with the Institute's view that a broader the tax base would enable the Government to correct the current over reliance on economically regressive labour taxes and to tip the balance in favour of indirect taxes such as VAT, property taxes and environmental charges, which would also support the decarbonisation of our economy.

Turning to the specific chapters you have asked us to focus on, we strongly agree that in the interests of equity and fiscal sustainability, taxpayers should not be exempt from income tax or USC by reason of their age or any other personal circumstance.

We also share the Commission's concern about the narrowness of the VAT base. Ireland zero-rates more goods than any other Member State. The European Commission has moved to provide Member States with more flexibility over VAT rates and have updated the list of goods and services to which reduced rates can be applied.

The new VAT rules also provide for the phasing out of preferential treatments for environmentally harmful goods such as fossil fuels. We agree with the Commission on Taxation and Welfare that now would be a good time to review the VAT treatment of goods and services in Ireland to ensure our rates are in line with EU rules.

In Chapter 7 of the Report, the Commission sets out its recommendations for a significant reworking of Capital Acquisitions Tax (CAT) and Capital Gains Tax (CGT) to increase the share of taxes from capital and wealth. While we agree that capital taxes should contribute to a broader base and more equitable tax system, we have concerns about the impacts and implementation difficulties of some of the Commission's recommendations.

For example, the proposal to treat the transfer of assets on a death as a disposal for CGT purposes. This would be a major change to the tax code, which the Commission accepts, and would require detailed consideration at both a policy and operational level.

In effect, this would mean two different taxes being levied on the same event which would in many cases result in the CGT payment being offset against the CAT liability. The Commission itself recognises that the net revenue gain for the Exchequer could be a limited.

The Institute's concern is that this recommendation, if enacted, would make the process of administering an estate difficult and costly for ordinary taxpayers, with minimal benefits for the Exchequer.

The Commission also recommends certain restrictions to some CGT and CAT reliefs relating to retirement and agricultural and business assets. The Institute agrees that these reliefs should be subject to review. But we would also point out that there are clear policy objectives underpinning these measures and chief among them is facilitating the smooth transfer and continued operation of income generating farms and businesses all over the country.

The Commission makes a serious point when they say capital taxes should be raising more revenue for the Exchequer. CGT receipts are subject to behavioural impact and our contention is that the current 33% rate, which is high by international standards, is having a dampening effect on economic activity. A reduction in the rate could improve the environment for start-ups and mature businesses, leading to an increase in transactions and Exchequer revenues. In our view, a reduced CGT rate of 25% should apply for active business assets.

In Chapter 8, we welcome the conclusion by the Commission that tax relief on pension contributions should be given at an individual's marginal income tax rate because these contributions are a deferral of income.

The Commission also acknowledges there are concerns about anomalies which could lead to inequitable treatment between unfunded pensions, including public sector pensions and the broader private pension landscape. We welcome their recommendation that such anomalies should be eliminated as far as possible.

Moving on to Chapter 14 which deals with Land and Property. As the Commission points out, the family home is the main source of wealth for the majority of households.

The Institute regards the Local Property Tax as a key stabilising component of our tax system, and we were pleased that changes introduced last year rescued the tax from atrophy. We agree 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.

If the LPT rate were to increase significantly, we believe it would be appropriate to allow outstanding mortgage debt to be offset when calculating the value of a residential premises, so that LPT would be a tax on the equity held in a home and would avoid those in negative equity being liable for the tax.

On the question of a Site Value Tax, we believe that there is merit in considering it as a replacement for the existing commercial rates system. 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 the Site Value Tax.

Finally, the Commission has provided an array of options for Government to consider as they seek to address future challenges. Ultimately, decisions on tax are a matter for Government. But all tax policy changes have consequences - many of them unintended. Successful implementation is greatly assisted by consultation with key stakeholders and we welcome this Committee's consideration of the Report as part of this process.