Invitation from Budgetary Oversight Committee (Irish Parliament)
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[Introductory words]

Many of the issues highlighted in the report are common across OECD countries, including:

- High levels of income and wealth inequality with trends towards an increasing concentration of income and wealth in a number of countries
- Decreases in housing affordability and declines in homeownership rates among younger generations
- Increases in public debt levels.

Tax systems can play an important role in addressing many of those issues. The chapters discussed in this session focus in particular on taxes that can play an important role in strengthening horizontal, vertical and intergenerational equity.

The OECD has recently published work on a range of taxes that are discussed in particular in Chapters 6, 7 and 14 of the Commission's report:

- *Taxation of Household Savings* ; *The Role and Design of Net Wealth Taxes* (2018)
- *Inheritance Taxation in OECD Countries* (2021)
- *Housing Taxation in OECD Countries* (2022)

These studies have generally shown that:

- The taxation of household savings is highly heterogenous across types of assets and sometimes regressive
- Taxes such as inheritance taxes and property taxes can play an important role (comparatively less distortive than other taxes and good properties from an equity point of view), but they are often under-used and poorly designed (leading to reductions in revenues, equity and efficiency).
- Regarding our study on net wealth taxes, it concludes that there might be less justification for wealth taxes where countries tax personal capital income and wealth transfers adequately. Where this is not the case or might not be possible through reform, there may be more justification for a wealth tax. However, a country deciding to put in place a wealth tax would need to ensure that it is well-designed to avoid the pitfalls of previous wealth taxes.
- We are also conducting ongoing work on the design and impact of taxes on personal capital income, where we believe there is scope for reform, especially in the context of increasing international tax transparency through the Automatic Exchange of Information (AEOI).

➔ In general, it is clear that tax systems could be reformed in ways that simultaneously enhance efficiency, equity and tax revenues, although these reforms may be politically challenging.

Of course, the need for reforms depends on country-specific circumstances, but international comparisons are helpful. For instance:

- Ireland : total tax revenues = 20.2% of GDP in 2020 compared to an OECD average of 33.5% - 4th lowest tax-to-GDP ratio in the OECD after Mexico, Colombia and Chile
- Composition of revenues: comparatively larger share of total revenue from income taxes (both personal and corporate income taxes), but lower share of revenue from social security

contributions compared to the OECD average – relatively similar shares of total revenues from property and consumption taxes.

We hope our participation in this hearing will provide you with useful elements of international comparison.

Finally, it is key to remember that taxes are only one of the instruments that governments have at their disposal and that taxes need to be combined with other policy instruments:

- When it comes to inequality, in the OECD on average ¾ of the reduction in income inequality occurs through transfers and only ¼ through taxes directly. This means that while taxes may have a direct impact on inequality reduction, other taxes that may appear less directly connected to inequality reduction may nonetheless have an important indirect role by raising the revenue needed to fund redistributive transfers.
- Housing market affordability is another area where taxes need to be considered alongside other policy instruments, and in fact an area where non-tax policy tools may be more effective. In most cases, non-tax policy measures to encourage housing supply will be more effective at enhancing housing affordability than tax measures.