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Opening statement by Ger Gibbons to Oireachtas Select Committee on Budgetary Oversight on the Commission on Taxation and Welfare Report – Chapters 9-12

22nd February 2023

On behalf of the Irish Congress of Trade Unions (ICTU), I would like to thank the Select Committee on Budgetary Oversight for the invitation to discuss Chapters 9-12 of the report of the Commission on Taxation and Welfare. This follows on from the submission we made to the Select Committee on these chapters in December. I am joined by my colleague, Dr. Laura Bambrick.

Our submission responded to a number of issues and recommendations of greatest interest and concern to ICTU, grouped under three headings: i) tax expenditures and low rates for enterprises and high-earning individuals, ii) PRSI, and iii) income protection.

We would like to begin by stating that in our view the Commission's report correctly recognises that government revenue as a share of national income must increase in order to provide the resources needed to meet the many challenges to fiscal sustainability that will arise over the medium- and long-term. This is perhaps the most important contribution the report has made, and one that must guide policy-making in Ireland in the years ahead.

Accordingly, we welcome the recommendations to broaden the tax-base and to minimise tax expenditures and differential tax treatments. This approach is entirely justified on grounds of horizontal and vertical equity, economic efficiency and transparency.

However, in our view, this approach is not carried over into Chapter 9 'Promoting Enterprise'. Instead, this chapter makes a series of recommendations that not only endorse, but in some cases seek to extend, a raft of very generous and costly tax expenditures and low rates for enterprises and high-earning individuals: we would highlight at this stage the recommendations concerning Entrepreneur Relief, which costs approximately €90 million a year or a total of possibly over half a billion euro between 2017 and 2022; the Special Assignee Relief Programme, which cost approximately €160 million in the five years to 2020; and the R&D tax credit, which cost over €650 million in 2020.

While it may be the case that in some individual, limited and special cases, such tax breaks may have some economic justification, it is the case that they breach the principles of horizontal and vertical equity, are highly regressive, reduce transparency, and conflict with the principles of tax justice and solidarity. In general, these recommendations run counter to the approach taken elsewhere in the report and only serve to undermine its overall coherence.

With regard to the other two headings of our submission - PRSI and income protection - we would make a number of points.

ICTU supports the principle of broadening the PRSI base to safeguard the future sustainability of the Social Insurance Fund and improve the adequacy of income supports, and largely agrees with the range of recommendations put forward to achieve this.

However, we have major reservations about the recommendation to make low wage workers liable for PRSI. Employees earning below €352 a week are currently exempt. This recommendation is in direct conflict with what the Pensions Commission recommend. On the basis of a poverty and gender impact analysis of applying a reduced 0.5% employee PRSI contribution on weekly earnings between €115-€352, conducted by the Department of Social Protection, the Pensions Commissions do *not* recommend an employee PRSI contribution below the current threshold. ICTU agrees with this evidence-based decision.

ICTU also has grave concerns with the recommendation to make people aged over 66 liable for PRSI. Ending the PRSI exemption on all income other than social welfare payments will unfairly and disproportionally impact certain groups of older people. For example, many pre-95 civil servants, who have no entitlement to the State pension, rely on a public sector pension that is of the same or 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. Also, it will result in pensioners being double taxed on their occupational pension income. That is, the same person will be levied for the same tax on the same income, given that workers are liable for PRSI on their contributions going into their pension pot since 2012. Finally, it will undermine Government policy to promote working beyond retirement age.

We are disappointed that the Commission did not consider increasing the 11.05% employer PRSI contribution. Ireland raises just half the revenue from employers' social insurance contributions than the EU average - the EU27 raised 8.2% of national income (GDP) from employers in 2019. The equivalent for Ireland was 4.4% (GNI* basis).

ICTU welcomes the recommendations strengthening the social safety net for workers and acknowledges that long-term working age payments need further reform to reduce work disincentives and the risk of poverty.

However, we will need to be assured that the design principles of the recommended changes to Jobseekers Allowance, the Working Family Payment and Child Benefit will not, in effect, act as a wage subsidy for low-paying employers before we endorse these recommendations.

We are happy to take any questions and look forward to the discussion with members.

ENDS

General Secretary: Owen Reidy
31-32 Parnell Square, Dublin 1, Ireland **Tel: +353 1 889 7777 Fax: +353 1 887 2012**
Email: congress@ictu.ie Web: www.ictu.ie ***Affiliated to the European Trade Union Confederation***

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