Opening Statement by Niamh Moloney, Chair of the Commission on Taxation and Welfare, at the Committee on Budgetary Oversight

Chairperson, Members – let me begin by thanking the Committee for the invitation to appear here this evening to discuss the recommendations of the Commission on Taxation and Welfare. As the independent Chair (I am an academic lawyer), my role was to facilitate the members of the Commission (who brought a wide range of expertise to our work) in reaching our recommendations, and I am delighted to be here with three of our members: Philip Kermode, previously a Director of the European Commission and whose responsibilities included Customs Policy, Direct Taxation, and Tax Coordination, and who also practiced with PwC in Dublin; Dr Barra Roantree of the Economic and Social Research Institute where he focuses on tax, welfare, and pensions; and Anne Vaughan, member of the Commission on Pensions and previously Deputy Secretary in the Department of Social Protection. I am also joined by Dr Colm O'Reardon, Secretary to the Commission, and his colleagues from the Secretariat, Sinead Ryan and Gary Hynds.

My opening remarks will focus on

- The context of the Commission's work
- Our approach
- Our main recommendations

Context of the Commission's Work

Taxation and welfare policies are among the most potent instruments available to the State to influence the living standards of the country and its people. They have a major bearing on numerous aspects of economic and social policy. They represent the obligations that we owe to each other and the protections we provide for each other, often referred to as reciprocity.

The Commission was asked by Government to consider these two critical systems by addressing a wide-ranging Terms of Reference. At the heart of our work was the core question asked by our Terms of Reference:

> *How best can the taxation and welfare systems support economic activity, and promote increased employment and prosperity, while ensuring that there are sufficient resources available to meet the costs of the public services and supports in the medium and longer term.*

This is an important question and with it came several associated issues, further specified in our Terms of Reference.

We sat for a year, from June 2021, and, during that time, we met in plenary session 26 times, held a major on-line public consultation ("Your Vision, Our Future"), and engaged with many stakeholders. We delivered our Report to the Minister for Finance on schedule in July 2022.

We all know that issues to do with taxation and the provision of public services are at the heart of democratic debate. This is particularly the case now, when inflation is at the highest level it has been for decades and when there is a debate about Corporation Tax receipts.

The role of the Commission, however, was to stand back from the immediate, and to take a strategic, medium to long-term view of these two critically important systems and how they can best be refined and reformed to ensure their future sustainability. As the title of our Report ("Foundations for the Future") makes clear, our recommendations look to the future and to the needs of Irish society over the next five to fifteen years.

It is important to say that, in many ways, the existing systems of taxation and welfare have performed well and have proven to be resilient, including over the Covid-19 pandemic. The issue is how well these systems can be expected to serve us in the future, in a fast-changing world.

The Commission's Approach

Our fundamental view is that, over the next five to fifteen years, the overall level of revenues raised from taxation and Pay Related Social Insurance (PRSI) as a share of national income will have to rise materially. This reflects the age profile of our population. To provide the level of services that, as a society, we currently expect, will require significant additional funding. The need to raise additional revenues also reflects the other significant fiscal risks that Ireland faces, including from the carbon transition, and from our growing reliance on Corporation Tax as a source of funding. While Corporation Tax receipts are currently very high, it would not be wise to place strategic reliance on this revenue to meet our future needs. Accordingly, the Commission adopted a net revenue raising approach.

At the core of our work was consideration of the best, the fairest, the most environmentally positive way to raise additional revenue. How do we ensure social cohesion and intergenerational equity? How can the taxation system help us in addressing the defining challenge of carbon reduction? How do we ensure we maintain a supportive environment for enterprise, innovation, and investment in Ireland? And how do we ensure that the Irish taxation and welfare systems include and support everyone?

In reviewing the taxation and welfare systems in this way, our task was explicitly strategic. We did not conduct a line-by-line review of every aspect of the taxation and welfare systems, but looked at both systems and their interaction in light of our Terms of Reference, in a holistic fashion, and with a medium to long-term perspective. This approach required judgement about which issues were the most relevant. It also required the application of a set of framing principles. We adopted five such principles: sustainability, reciprocity, adequacy, equity, and efficiency.

The Commission's Main Recommendations

Specifically, our Report proposes a series of measures to expand the tax base and to shift the balance of taxation to ensure that a greater share of taxation is drawn from more efficient taxes, and so to secure the sustainability and also the fairness of the taxation system. It also proposes progressive reforms to our social welfare system to support employment and address child poverty. Together, these measures are intended to form a balanced package of reform proposals.

Our major reforms include:

- Overall, shifting the balance of taxation away from taxes on labour and towards taxes on wealth and consumption; and strengthening the PRSI system

- Increasing the taxation yield from capital taxes

- Introducing a Site Value Tax (SVT) on all land not subject to the Local Property Tax; and increasing the yield from the Local Property Tax

- As the yields from fossil fuels decline, replacing these revenues with new charges, including road usage charges

- Continuing to maintain a supportive environment for enterprise, including through incentives for early stage, innovative businesses

- And enhancing the welfare system by reforms focused on supporting employment, addressing child poverty (including through a second level of child income support for low-income households), and removing cliff-edge effects (supporting people to be in work)

It is not expected, or realistic, that our recommendations, while interconnected, be implemented all at once. They are made in the expectation that detailed planning and distributional impact analysis will be required, and that reforms are phased in over time. We have also sought to avoid being overly prescriptive and to set out clear principles and directions of travel.

Conclusion

I would like to thank Commission members. Since our first meeting in June 2021, their commitment to act in the national interest was unwavering. And I would also like to thank the outstanding Secretariat, led by Dr Colm O' Reardon.

Finally, thank you for inviting myself and Commission members this evening and for considering the Commission's Report, with key stakeholders, in your meetings this year. The Report seeks to support dialogue and debate on the future of our taxation and welfare systems and I hope our advice is of value to Members in addressing the complex issues raised by the longer-term sustainability challenges our taxation and welfare systems are facing. We look forward to our engagement this evening.