

DÁIL ÉIREANN

AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 27 Meán Fómhair 2017

Wednesday, 27 September 2017

Tháinig an Roghchoiste le chéile ag 2 p.m.

The Select Committee met at 2 p.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	
Richard Boyd Barrett,	
Colm Brophy,	
Thomas P. Broughan,	
Joan Burton,	
Dara Calleary,	
Pearse Doherty,	
Martin Heydon,	
John Lahart,	
Michael McGrath,	
Maurice Quinlivan,*	
Eamon Ryan.	

* In éagmais / In the absence of Deputy David Cullinane.

Teachta / Deputy Josepha Madigan sa Chathaoir / in the Chair.

Business of Select Committee

Ex-ante Scrutiny of Budget 2018 (Resumed): Minister for Finance

Chairman: Before we begin, I remind members and witnesses to turn off their mobile phones. The interference from mobile phones affects sound quality and the transmission of proceedings.

I welcome the Minister for Finance and Minister for Public Expenditure and Reform, Deputy Donohoe, who is accompanied by Mr. John McCarthy, chief economist, Mr. Rónán Hession, principal officer, and Mr. Joe Cullen, principal officer, from the Department of Finance and Mr. William Beausang, assistant secretary, and Mr. John Kinnane, principal officer, from the Department of Public Expenditure and Reform. I thank them for making themselves available.

We are meeting the Minister for Finance as part of our ex-ante scrutiny of the budget. In terms of best practice, the OECD promotes a whole-of-year approach to budget scrutiny whereby parliamentary engagement on budgeting is continuous and longer-term in nature rather than focused on a set-piece event once a year. Over time, and informed by the work of the Parliamentary Budget Office, I hope the committee can contribute to developing this approach. The best way to achieve that is to work with the Minister, in the context of his two roles, on an ongoing basis in order to enhance the process relating to budgetary scrutiny.

Before we hear the Minister's opening statement, I draw our guests' attention to the position on privilege, which also applies to officials who may contribute to proceedings. Witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I invite the Minister to make his opening statement.

Minister for Finance (Deputy Paschal Donohoe): I thank the Chairperson and members of the committee for the opportunity to come before them as part of the ex-ante scrutiny of budget 2018 and I look forward to a good exchange.

During the summer, two main elements of the pre-budgetary process took place with the national economic dialogue being held in June and the publication of the summer economic statement shortly afterwards. The national economic dialogue allowed for a positive, open and inclusive exchange to take place between a wide range of stakeholders on the differing economic perspectives in advance of the budget. In line with last year's arrangements, the Department of Public Expenditure and Reform also published its mid-year expenditure report in July and the Department of Finance circulated the tax strategy papers. These elements all form an important part of the pre-budget cycle, which has led to a more open, transparent and

collaborative approach to the annual budgetary process.

Last year, my predecessor published the Finance Bill shortly after budget day. It is my intention to publish this year's Bill as soon as possible after budget day and not later than two weeks after I deliver the Budget Statement.

The economy continues to perform strongly, as evidenced by developments in the labour market and as highlighted in the summer economic statement. Our GDP growth last year was 5.2%, the highest rate in the European Union, with the European Commission forecasting that the economy will be among the fastest-growing in the EU over this year and next. Unemployment has fallen from a peak of over 15% to 6.1% in August, and is on track to fall below 6% by the end of this year. Employment has also increased by over 230,000 from its lowest point – which translates into a 13% increase. Domestic demand is likewise growing strongly, with private consumption up 10% during the past three years. It now exceeds its pre-crisis peak.

Turning to the public finances, tax revenues at the end of August were just 0.7% or €209 million below profile. This equates to a solid year-on-year increase of 4.9 % and we are still targeting an annual tax take of €50.6 billion for 2017.

Ireland's debt levels are still high and we are committed to continuing to reduce this debt burden further as part of our budgetary strategy. As such, we must be cognisant of the risks to the economic cycle, in particular from the external environment and to plan accordingly. In that context, the Government is maintaining its commitment to establishing a rainy day fund into which it will put €500 million per annum. I will be circulating a consultation paper to the Oireachtas shortly to seek views on a range of matters. These include the nature or purpose of the fund, how to provide for the fund, accessing the fund, the maximum size of the fund and so on.

In terms of the budgetary position, I have stated on previous occasions that our objective for next year is to achieve a balanced budget. This will mean ensuring that Ireland reaches its medium-term budgetary objective in 2017 by achieving a structural deficit of 0.5% of national income. As set out in the summer economic statement, the fiscal space available for budget 2018 will be of the order of €1.2 billion. This will enable us to reach our medium-term objective and achieve a balanced budget next year. As members are aware, only €350 million of this remains to be allocated in respect of specific measures, with the rest already spoken for, due to demographics, carryovers from budget 2017, the Action Plan for Housing and Homelessness and the Lansdowne Road agreement.

The mid-year expenditure report outlines an increase of €2 billion in gross voted expenditure for 2018. This increase of 3.5% continues the approach of implementing moderate sustainable increases in public expenditure to facilitate targeted improvements in key public services and infrastructure. This approach has seen increases for key priority areas. In 2017, the allocation for the housing programme in the Department of Housing, Planning and Local Government was increased by over €400 million or 50%. The health allocation increased by almost €500 million or 3.5 %. The allocation for the Department of Children and Youth Affairs increased by over 15 % this year.

One key issue which must be addressed each year is demographic pressures. These include: additional numbers qualifying for the State pension; and the hiring of additional teachers to address the incremental increase in pupil enrolments. This can often be characterised as the cost of merely standing still. Given the need to meet these costs, and also to enhance public

services to meet new priorities, there is a clear need for focus on value for money and policy effectiveness. This is the context in which the spending review was carried out. Unlike previous reviews, which focused on reducing spending, the aim of this review was to systematically examine existing programmes to assess their effectiveness in meeting policy objectives. The spending review operates as a complementary process to the Estimates process. It was undertaken over the first half of the year in order to enable the outputs relating to each area to feed into the consideration of expenditure proposals for the Estimates for 2018.

Investment in public infrastructure is essential to increasing the long-term capacity of the economy. The significant progress in our public finances has enabled the Government to increase capital expenditure by a further €4 billion over the remaining period of the capital plan to 2021. This is in addition to the money - €2.2 billion - already committed to support the delivery of the Action Plan for Housing and Homelessness. On budget day, I intend to announce the allocation of this additional funding. This reflects a significant planned increase in public capital investment, with expenditure in Ireland more than doubling between 2014 and 2021. As confirmed by the Irish Fiscal Advisory Council in its pre-budget submission, this will result in public investment in Ireland moving to among the highest in the EU. I do not want to repeat previous mistakes, such as when capital expenditure was ramped up too quickly and resulted in inflation and poor value for money. This is why the Government has set out a planned and sustainable increase in expenditure that is based on evidence and analysis.

The mid-term review of the capital plan, which was published on 14 September, provides the evidence base. The review includes: submissions by Departments and offices; a public consultation; and capacity-and-demand analysis of our infrastructure completed by the Irish Government Economic and Evaluation Service, IGEES. This analysis will be used to inform the allocations at budget time and, subsequently, for the new ten-year investment plan in light of the infrastructural deficits identified in the review. A key priority in the context of the ten-year plan will be to ensure the coherence of a long-term and strategic approach that fits in with the spatial configuration in the national planning framework. It will be announced before the end of the year.

Chairman: Before calling other members, I wish to put three short questions to the Minister. In London on Monday, the Taoiseach made some comments about the local property tax. Can we expect any measures in that regard in the upcoming budget?

A number of witnesses who appeared before the committee in recent weeks have said that our tax is out of line with international best practice in that we have a narrow tax base and a high marginal tax rate. They have suggested that we should broaden the base and reduce the marginal rate. What is the Minister's approach to that? Does he have any measures to change the existing tax policy?

Charities Institute Ireland sent us correspondence seeking a VAT compensation scheme arising from a working group report in 2015. Has that been reviewed? Will the Department address any such tax issues in the upcoming budget?

Deputy Paschal Donohoe: I will begin with charities. I am aware of this matter and a number of Members of the Houses have raised it with me. I am examining whether such a measure could be implemented on budget day. I am not in a position to go into the detail of particular measures; it is just a case of whether I can introduce them. That is a matter I will address on the day of the budget. One of the issues I will be dealing with as we consider this option is how to define what constitutes a charity. If a measure is implemented, how can we

ensure that it does not trigger many demands for equivalent organisations throughout society?

The Chairman asked about our tax base and the nature of our income tax code. We had a tax base that was very narrow by international standards. That is why measures such as the introduction of the local property tax then were important - I know that is the subject of a question. That is why we aimed at the time to introduce a water-charging system. The latter did not gain political support but it was driven by that objective. I am very conscious of maintaining the breadth of our tax base. We have one of the most progressive income tax systems in the world in that as people earn more money, they pay more money. On a number of occasions I have flagged that marginal tax rates begin to increase very quickly for those earning any more than a standard wage. That is a matter on which I believe this Government and the Dáil should make progress.

Given that a timeframe for the local property tax has already been laid down, I will be standing by it. As was made clear by the previous Minister, Deputy Noonan, following the publication of the Thornhill report, we will be looking at changes regarding that taxation - that tax base - from 2019. I will be sticking to that timeframe. Any announcements I make prior to that date will be about the process to get to that point. I am very conscious of the concerns, which have been articulated by others, including the Chairman, to the effect that there may be sudden large shifts in the tax bills people may face. As the Taoiseach has articulated, we will certainly take that into account in trying to avoid such a scenario. We will do that work in 2018 and bring it to conclusion at an appropriate point well in advance of 2019.

Chairman: I will call the spokespersons for the parties, each of whom will have ten minutes. The sequence is Deputies Calleary, Eamon Ryan, Pearse Doherty, Boyd Barrett, Broughan and Heydon. We will then have Deputy Lahart.

Deputy Dara Calleary: I welcome the Minister and his officials. The Taoiseach has said that the overriding ambition of this budget will be to balance the books in order to reach the medium-term objective. Just before the Minister came in, we heard from representatives of the parliamentary budget office. The calculation of fiscal space is affected by the target of reaching the medium-term objective. In reaching that objective, the Minister is using a calculation provided by the European Commission. However, the IMF and OECD use different measures to calculate the fiscal space. Why is the Minister so wedded to the Commission's method of using those figures given that it has been proven, including by many witnesses who appeared before the committee in recent weeks, that said method is unsuitable for the Irish economy? In that context, there was a rise in the output gap from last year's budget to the summer economic statement. What drove that rise? What effect has that rise had on the calculation of the fiscal space?

Deputy Paschal Donohoe: I ask the Deputy to clarify the rise to which he is referring.

Deputy Dara Calleary: There was a rise in the conversions margin that went to 2.3% in the summer economic statement from 1.7% in budget 2017. If that had not changed, the independent budget office believes that the net fiscal space would be €1.8 billion for 2018. The output gap rose from 1.1% in budget 2017 to 1.4% in the summer economic statement. What drove that increase?

We spent much of the year trying to get our heads around the underperformance of income tax figures. Various explanations were offered. Generally, the proposal for USC changes is one of those. In preparing the 2018 income tax figures, is the Minister confident that they will be accurate? Will he be able to stand over the target figures he will present on budget day?

In recent weeks a number of witnesses have commented that we are moving towards full employment, something that the Minister's colleagues frequently mention. However, we have a very low labour participation rate at 60%. Is the Minister considering initiatives to enhance that labour force participation rate? I ask the Minister to give his views on the impact of the changes in child care costs he announced in budget 2017. What effect have those changes made to child care costs, particularly in recent weeks?

I wish to inquire about two specific taxation initiatives. What is the Department of Finance view on the vacant site tax? Has the Minister received advice from his officials on the concept of such a tax and its implementation? Has he received advice from his officials on the 9% rate of VAT for hospitality and other services? Have his officials advised the Minister to raise the value added tax, VAT, rate from 9% for hospitality and other services?

We have taken a more moderate view of the economy given threats such as Brexit and the common consolidated corporate tax base, CCCTB. The Economic and Social Research Institute, ESRI, described the CCCTB as possibly a bigger threat than Brexit. What is the Minister's view of the threats? We also put in climate change.

What is the likely impact of President Trump's proposals on corporation tax, if they are passed, on our corporation tax base? What is the Minister's view of the long-term sustainability of that base?

What are the Minister's views on President Macron's proposals this morning, linking agreement on European tax reform to subsidies and to participation in the European Social Fund? That does not sound like a united Europe.

Once again, the Health Service Executive, HSE, has an overrun, which it blames on the various changes to public sector pay announced this year. The Minister for Health, Deputy Harris, stated in this room this morning that no extra money will be given to the HSE this year to account for those extra changes.

Chairman: That is a lot of questions from the Deputy.

Deputy Dara Calleary: I am trying to get them all in within ten minutes.

Deputy Martin Heydon: There are other members here.

Chairman: The Deputy can come back in again. He has six minutes left.

Deputy Paschal Donohoe: I will begin where the Deputy ended, on the international environment and statements by President Trump. I will not comment on initiatives that might be the subject of debate in another political system and country. It will make choices on what it will do. It is very important that we are crystal clear on the nature of our competitiveness and the proposition we offer for attracting and retaining jobs. As a debate is under way in America on change it is even more important that what we offer is predictable, that people know where they stand and that we are confident that corporation tax is an important part of what we competitively offer but it is not all of it. I see that in the engagements I am having with many companies in the post-Brexit world which consider the quality of our workers' education, Ireland or Dublin as a location and access to it, our legal framework, our language and so on. I am confident that, despite the change or potential change taking place in other jurisdictions on these matters, Ireland will continue to have a competitive offering.

In response to the question on the CCCTB, President Macron is entitled to outline his agenda on the future of the eurozone, Europe and France. I am equally entitled to lay out our national interests in those areas. In respect of the broad economic and monetary union, EMU, and the future of the eurozone, I believe it is in the long-term interests of Ireland, particularly given the change happening in other parts of the world, that we have a more stable eurozone that continues to grow in the way it has in recent years. Strengthening the eurozone and monetary union in Europe is in our interests. We believe the key ways to do that will be through the completion of banking and capital union. Capital union matters to Ireland and Europe because most of our investment is bank based. Banking union matters because it creates an environment in which we have greater confidence of regulation and that the split between the sovereign and banking systems will be maintained. In respect of corporation tax policy the current decision-making process will be protected. We believe the principle of unanimity in respect of taxation matters is a core element of how decisions are made on all tax matters, not just corporation tax. That is the stance I have taken recently and will continue to advocate.

In respect of VAT I will not comment on individual taxation matters that I will announce on budget day because the decisions will be made that day and any decisions I make now will have economic consequences for today. I will not go down that path. The Department of Finance has outlined different options on VAT but the decision is for me and the Government to make.

As the Deputy is aware, the vacant site levy is a levy as opposed to a tax and because of that it is a matter that the Minister for Housing, Planning and Local Government, Deputy Murphy, is engaged on at the moment. I am giving him my view on it, that it is a very important measure to change the incentives on land use and I am working with the Minister now on that proposal. He has already outlined some views on it.

One of the first things I said as Minister for Finance, and for Public Expenditure and Reform, was that to be in a situation where our labour market might reach full employment next year, I stress “might” because of the risks the Deputy is aware of, is an important consideration in respect of choices I must make. I will make economic choices only on the basis of what I think is right for the economy overall and the fact that it is growing at the rate it is and that the labour market is improving at the rate it is are important considerations for me. In respect of child care costs I can see the effect of the changes in child care regulation and provision at a local level in my constituency and the difference it is making. In fairness, however, to the Minister for Children and Youth Affairs, Deputy Zappone, it is very early in the day to say what the long-term effect of that will be because it is a measure that has been implemented for only a few months. I agree with her point that the Government will take further action if needed, if we get to a point where the availability of the subsidy scheme the Government has made available contributes to higher costs because we are trying to get to an affordable and better regulated position.

In response to the Deputy’s question on the legal definition of balancing the books, we are legally obliged to follow the European Commission’s definition. That is what we are doing and will continue to do. The convergence margin changed because at that point in the year our gross domestic product, GDP, growth was higher than we expected it to be in our original forecasts. The Deputy is referring to a report he received from his independent parliamentary office. I have not seen it nor would I expect to. It is a matter for the Deputy but if there are issues in it that the Deputy wants me to respond to beyond the response I have given I will be delighted to do so.

Chairman: What measures is the Department considering to maintain or re-evaluate the

VAT rate?

Deputy Paschal Donohoe: I will deal with that on budget day. The Department has made available to me its views on the performance of that rate and if I have to comment on every individual tax measure I may or may not make we will not have a budget and we will end up with changes in the economy tomorrow that will affect how we expect it to perform.

Deputy Dara Calleary: What about the income tax figures?

Deputy Paschal Donohoe: We expect to deliver the income tax figures that we set out for this year and I will be certain that the income tax collection figures we set out for next year will have the same level of certainty we had in other years when we have delivered them or have come close to delivering them.

Deputy Dara Calleary: What about the impact of the public service pay agreement on the HSE budget and its potential impact on services?

Deputy Paschal Donohoe: Every other Department had to, and did, absorb the impact of the stabilisation programme I put in place in respect of the Lansdowne Road Agreement. By and large all Departments have absorbed that into their running costs, as I would have expected. I know and see regularly that there is pressure in the hospital group mainly, as overseen by the HSE, and I will work with the Minister for Health to deal with that in the context of how the entire health service will perform. The health service has never had more money available to it at any other point in the history of the State. We are now at the point where we need to look at how more resources can be made available in the future. I accept that and will do it on budget day. The level of resourcing now available to the HSE and our health service is at an all-time high.

Deputy Eamon Ryan: I thank the Chairman for letting me in early. I have to go to a meeting in UCD so will have to leave shortly after I ask my questions. I apologise for that. I am very conscious we are all men present with the exception of the Chairman, which is a bit unfortunate. I have very good friends on this committee but sometimes when I am listening to our budget analysis, I think it is all about the economy. We are dominated by economists. I do not want to be too critical of the Minister but he said he will make decisions on the basis of what is right for the economy as a whole. We need to think of what is right for our society as a whole when making decisions. I will cite three examples of strategic cases where it is not just economic interests that are involved. I will be slightly critical of the Minister's Department but I am coming from my own historical experience. Deputy Brian Stanley was due in this morning for a 9.30 a.m. meeting of the communications committee. He arrived an hour late. He left Portlaoise at 7 o'clock and it took him three hours to get in. As a result of a historic obsession in the Minister's Department with automobiles as the favoured mode of transport, the Department's inability to cost the benefits of public transport, the fact there is no understanding of the quality of urban life and the need to create public space and invest in cycling, pedestrian and other infrastructure, we have created a completely unsustainable transport system that is desperately affecting the quality of life for our people as well as the productivity of the economy.

The Chairman said we need to review our property tax and look at what was proposed back in 2010. The Department fought that tooth and nail at the time. We should consider the introduction of a site value tax that at least would signal what we need to do in our national planning framework to go back to the centre and stop the sprawl. Economists do not seem to have the ability to measure that, for example, one's time on a train is worth more because one can read a book, which perhaps does not have a value. I put that forward as one of the measures in which

we could get a strategic change which economists might not suggest but which make sense.

Chairman: Would Deputy Ryan like to ask some questions?

Deputy Eamon Ryan: Yes, that is my first question. Will the Minister introduce a site value tax as recommended by the ESRI to stop the sprawl? Most economists come out with the need for a carbon tax. I have been in favour of a carbon tax but it will not give us the massive scale of change we need to meet the issue of climate change. We need to go beyond that with radical reinvestment or by changing our investment spending. We are out advertising how green we are and what a great Origin Green country we are. We are putting millions into advertising it yet we do not have an organic scheme in agriculture at the moment. We have hardly anyone working in the National Parks and Wildlife Service, which does not even have a head. I could go through every single budget line that shows the complete disregard that is historic in the Department. It never believed in renewables. It fought against them at every stage. It needs to change. Where in this budget will be the strategic shift from the unsustainable low carbon model to a carbon model? A female member of this committee gave me a book - I know the Minister is interested in books - called "Utopia for Realists", which I thought was very interesting. It put forward the concept of a basic income which I agree with and have been calling for for years. We need to rethink spending rather than just obsessing about how big the fiscal space is one way or the other. Let us look at our massive social welfare budget of €21 billion or €22 billion and ask if we could spend it in a different way that liberates our people and is not just obsessed with labour activation, as most people coming in here are. It is all about the paid economy and people who work. Those who work in caring work at home do not matter which is the result of all the strategic investment, tax and other decisions we made in the past 15 years. As we start to get a bit of freedom and a bit of movement, I am interested in looking at different options. Those who work outside the economy and who have nothing to do with the paid economy deserve our support. The sort of country I want is one where people have freedom of choice. It is great to have full employment and to have everyone working but if we continue on with the obsession with the economy and getting everyone working, we will be right back to 2004. I would love to see a budget that actually brings something different.

Chairman: Will Deputy Ryan ask a few questions?

Deputy Eamon Ryan: Will the Minister introduce a basic income on a test basis by taking a couple of towns in the country where it would not cost us a huge amount, as was recommended in that book, to try it out and see how it might work?

Deputy Paschal Donohoe: I thank the Deputy. To answer the first question, when I was performing my role in the Department of Public Expenditure and Reform in the early part of this Dáil and in my decisions as Minister for Transport, Tourism and Sport, I prioritised public transport. I have made decisions that reflect that.

Deputy Eamon Ryan: Does the Minister see we have a long way to go?

Deputy Paschal Donohoe: When the Luas cross city project is complete, a whole lot of other transport projects will take its place. None will be equal in size to Luas cross city but many other projects will be moving forward to take its place to deliver better public transport for people. I am committed to working with the Minister, Deputy Ross, in the context of this budget to look at how we can improve public transport provision. I do that because the analysis the Deputy has offered of the importance of public transport is one I accept. I will try to make progress on that in budget day and in the ten-year capital plan to follow because we need to.

The Deputy asked a question about sprawl and the site value tax. I agree we need to find ways to ensure the development in our cities is a better development that allows more people to live in it and to make those population centres more concentrated. I support the Minister, Deputy Murphy, in the work he is doing in that area and in further decisions he will make on it so we can promote higher quality dense residential development in our large cities. That needs to happen.

On the environmental element of the budget and the focus I have on economic matters, I will say I am before the budgetary oversight committee. The committee is asking me questions about the budget and the economy. If I have not said this to the committee before, I am preoccupied by and focused on certain economic indicators, such as our exchange rate, bond yields and structural deficit. They are vital and are what give me and the country the resources to benefit our society. I see the true importance of those indicators being how they can create resources and give us the ability to make a difference to our citizens and all the challenges they have in their daily lives.

On the question of basic income, I said a moment ago I will not be making any announcements today on budgetary decisions on budget day. It is fair to say, I will not be announcing a basic income scheme for Ireland on budget day. I have not read “Utopia for Realists”. I have read some of the thinking done by George Monbiot, who has a book out in that area at the moment. I would be very interested in engaging with any communities that have any ideas regarding how they want to look at a scheme such as that but it is not something we are in a position to countenance for the entire country at this point in time.

Deputy Eamon Ryan: I will take the Minister up on that. We should set up a scheme where communities could come to the Minister. My understanding of the national planning framework is that it should come from the bottom up. Communities could come to the Minister and ask him to use them as test case examples. We need to start being innovative and think differently, outside the box. We should not just think in conventional economic systems because the current conventional economic model is broken. Chasing the treadmill of being the fastest, best boy, global capitalist country with the lowest corporation tax is not necessarily where we need to go at the present time. We should be positioning ourselves as being a safe, secure and prosperous country but one that is willing to think outside the box and do things differently. Communities could come with suggestions of how they would do things differently and the Department could support it.

The problem I have with where we are and the reason I think nothing has changed since 2004 is I looked at the Department of Transport, Tourism and Sport submission to the national capital review plan and nothing has changed. I saw IBEC’s utterly unsustainable submission to the national planning framework. It is all about an accelerated roads programme because we do not have public transport projects ready to go. From my detailed work on cycling, I think we have the opportunity to turn this city around with greenways along the Dodder, the Tolka, the Liffey, the canal and the seafront that would dramatically enhance the economy of this country and attract the people looking to leave London. People would be able to cycle by Sandymount strand in a way that is spectacular and would raise one’s heart. Such an initiative would make this city thrive. Unfortunately, nothing has happened. For five years people have tried to get a cycle route along the River Liffey but we are back at the drawing board. In terms of the sustainability agenda, across the board there is no vision for how this country could go green. This budget must change things and ensure we get real because a sustainable economy will create a better economic future and a better society.

Deputy Paschal Donohoe: I do not know if the Deputy has seen the recently opened new cycle lane that travels from Clontarf, into the North Strand and on into the city centre. The initiative is an example of the kind of progress that the Deputy seeks.

Deputy Eamon Ryan: Does the Minister mean the cycle lane from Clontarf outwards?

Deputy Paschal Donohoe: No.

Deputy Eamon Ryan: We cannot complete the cycle lane moving inwards.

Deputy Paschal Donohoe: No. The cycle lane is being completed. It is moving down through the North Strand with a view to connecting to the city centre.

Deputy Eamon Ryan: The lane is stuck in planning.

Deputy Paschal Donohoe: No, it is not.

Deputy Eamon Ryan: It is.

Deputy Paschal Donohoe: The work is under way. I have outlined the facts.

Deputy Eamon Ryan: It is not.

Deputy Paschal Donohoe: As we speak now, work is under way on a bridge that will allow a better link-up between the cycle lane and the city centre. Let us consider other parts of the city. There is a plan to link up Sheriff Street, through a new cycle route, all of the way up to Ashtown to provide-----

Deputy Eamon Ryan: That is the only project going ahead. That is the one project going ahead.

Chairman: Deputy, let the Minister finish.

Deputy Paschal Donohoe: -----a new cycle route into the city centre to meet some of the needs that Deputy Ryan has mentioned. One minute he alleges nothing is happening but when I point to examples of something that is happening he said it is only one project. I would also make a point about the progress that has been made with the greenway in Waterford, which is an example of the progress that can be made.

I have received a submission from the Department of Transport, Tourism and Sport on the development of transport within our country. The issues that the Department is pressing with me are improvement in public transport and more investment in cycle lanes. It is true to say that road projects are more appropriate for parts of our country rather than public transport options. Part of the reason is because some of the issues the Department is trying to address are best served by improving the current roads system, and I am thinking of road safety issues. I can assure the Deputy that the Minister for Transport, Tourism and Sport and his Department are pressing the case for public transport with me.

Chairman: The transport committee can also deal with those issues. I thank Deputy Ryan and the Minister for their comments. I call Deputy Pearse Doherty who has ten minutes.

Deputy Pearse Doherty: Cuirím fáilte roimh an Aire agus roimh a fhoireann go dtí an coiste anseo. I thank the officials in the Department of Finance and the Department of Public Expenditure and Reform for their assistance. My party has submitted about 1,000 questions on

an alternative budget. The Minister will be glad to hear that Fianna Fáil is not compiling an alternative budget so at the least the officials will not have to do double the amount of work. The officials have been very good and speedy in supplying answers and responding to our queries.

I shall first comment on balancing the books. Will the general Government balance be zero? Does the Government intend to take in as much as it spends in 2019?

Deputy Paschal Donohoe: The definition that I will use for balanced books is the structural deficit and the target for that is -0.5%.

Deputy Pearse Doherty: I want to talk about the definition that the Taoiseach used yesterday during Leaders' Questions in response to our request that he should subsidise child care. He said he would balance the books for the first time in ten years and that meant the Government would spend as much as it takes in. Is that the case? The summer economic statement suggests that there would be a deficit in 2018.

Deputy Paschal Donohoe: In structural terms there will be because, as I just said, the objective is -0.5%. I shall return to the question that Deputy Calleary asked me. The budgetary performance definition that we must use has been set by the European Commission, which defines it as a medium-term objective and is a structural deficit.

Deputy Pearse Doherty: I understand. For clarity's sake, the budget that the Minister will introduce is not going to be one that will balance the books in conventional terms. It is one where the income will meet or exceed expenditure. Has the Government departed from the summer economic statement, which suggests that we are looking at €335 million deficit in 2018?

Deputy Paschal Donohoe: I understand we are dealing with a general Government balance. When I translate the 0.5% into a general Government balance the measure that I have to meet is the structural balance, which is equal to -0.1% of a general Government balance. If it is -0.1% that means it is, in essence, as close as we can get it to being balanced.

Deputy Pearse Doherty: According to the summer economic statement that translates into a deficit of €330 million. Is that correct?

Deputy Paschal Donohoe: Yes, roughly so.

Deputy Pearse Doherty: Or €355 million. Everybody thinks that expenditure will meet income. The Taoiseach referred to the matter yesterday but that is not the case. I wish to clarify that we have not seen a departure from the economic stance stipulated in the summer economic statement. Is the Minister targeting the structural balance?

Deputy Paschal Donohoe: Yes, it is the structural balance that I am targeting. At all times the language that I have used to describe what we are doing is "broadly balancing our books".

Deputy Pearse Doherty: I completely accept that. I want to ask about the margin of compliance. The Fiscal Advisory Council has told this committee that the net fiscal space is €650 million. I understand from the summer economic statement, and page 20 of the report compiled by the Fiscal Advisory Council, that that is the case and the two figures are the same. The difference is that the Government has taken a decision to reduce the net fiscal space by €150 million in what the Minister has called "the margin of compliance" in an effort to reach the medium-term objective, MTO. We do not need to reach the MTO to abide by the fiscal rules. Can he

confirm that the net fiscal space is €650 million to meet the fiscal rules?

Deputy Paschal Donohoe: I ask my colleague, Mr. John McCarthy, to answer the question.

Mr. John McCarthy: We set out, in the summer economic statement, that on the basis of the expenditure benchmark the net fiscal space would be €1.3 billion. If one just goes with the expenditure benchmark, that would not be sufficient to achieve the balanced budget or -0.5% that the Minister mentioned. We had to remove between €100 million and €150 million in calculating the net fiscal space to ensure compliance and achieving the -0.5% because Government policy for three years has been to achieve same by 2018.

Deputy Pearse Doherty: The fiscal rules do not ask us to achieve that target.

In terms of complying with the fiscal rules, the net fiscal space would be €650 million. Is that correct? The fiscal rules at this point in time are the expenditure benchmark and there is an improvement of 0.6%.

Mr. John McCarthy: The fiscal rules are twofold. The MTO is the endpoint and to guide one there we use the expenditure benchmark. If we apply the expenditure benchmark for next year one will get between €100 million and €150 million more but that does not mean compliance with the MTO. Due to the fact that it has been policy ever since we corrected the excessive deficit in 2015, then 2018 has always been the endpoint. That is why, in the summer economic statement, between €100 and €150 million is reduced from the fiscal space.

Deputy Pearse Doherty: The reduction is Government policy as opposed to the rules that are being forced on us by Europe or the rules we have agreed with Europe.

In terms of the MTO, by reducing the fiscal space by €150 million the Government believes it will hit 0.5%. Is the calculation exactly 0.5%? Is the figure lower? Is the figure rounded up or down?

Deputy Paschal Donohoe: The figure is 0.5%.

Deputy Pearse Doherty: Reducing the fiscal space by €150 million allows the Government 0.54% of additionality. That is all it is because it is a factor of the GDP. Therefore, if the Government did not have the margin of compliance the structural balance would come in at 0.554%. Is that correct?

Mr. John McCarthy: I think I see where the Deputy is coming from. Within the numbers, we will be very close to 0.54% even leaving aside between €100 million and €150 million.

Deputy Pearse Doherty: I asked Mr. McCarthy that question earlier and he told me it was 0.5%.

Mr. John McCarthy: I mean 0.54% rounds to 0.5%. One is not required to reach 0.50%. One never moves to the second decimal point. The Commission does not, in terms of assessing-----

Deputy Pearse Doherty: The margin of compliance is three quarters of a percentage point. I have made the point that the margin of compliance applied by the Minister is just over half of a percentage point. Is he not being ultra cautious in reducing the fiscal space that we really need this year in order to reach a target we do not need to reach under the fiscal rules?

Deputy Paschal Donohoe: I have always said that there is a legal framework within which I must operate. Independent of that, however, I believe it is appropriate, given many of the risks we face and the way our domestic economy is performing, that Ireland gets to a point where it has a general Government balance that is in line with what I said at the start of my contribution. I wish to ensure that, at a time when our economy is growing and our deficit is beginning to stabilise, at a point in the future we will deliver surpluses to bring down our debt. I will ask John McCarthy to answer some of the technical questions regarding the fiscal space. However, on the question about being cautious, I am cautious. I wish to be careful that decisions we make next year get Ireland to a point that we meet the objectives we have set for ourselves in recent years.

Deputy Pearse Doherty: This will be the first time the Minister will introduce a budget as Minister for Finance. It has been reported in the last couple of days that the Minister has transferred shares he has into his wife's name.

Chairman: That is not appropriate, Deputy Doherty.

Deputy Pearse Doherty: It is a conflict of interest issue.

Chairman: This is about the budget, not personal finance.

Deputy Pearse Doherty: I can talk about whether the Minister-----

Chairman: I am sorry but I am going to overrule that. It is not appropriate to ask that question.

Deputy Pearse Doherty: I genuinely think it is but if the Chairman is ruling against it-----

Chairman: The Deputy should stick to the published agenda.

Deputy Pearse Doherty: I presume there will be a number of alcohol-related tax measures in the budget-----

Chairman: Deputy Doherty, if you wish to ask a general question, please do. No personal questions are allowed.

Deputy Thomas P. Broughan: A Chathaoirleigh, we act to some extent as almost directors of our country. At a board meeting people generally ask for any possible conflicts of interest before the meeting starts, so-----

Chairman: It is not appropriate. I am the Chairman and I am saying the Deputy should ask questions relating to the budget. Your ten minutes are almost up.

Deputy Pearse Doherty: I only intended to give the Minister an opportunity to reassure the public and this committee that he is not conflicted as a result of his household continuing to have those shares. I did not wish to press it any further than that.

Chairman: I do not think you are obliged to answer that, Minister.

Deputy Paschal Donohoe: I might not be obliged but I am happy to answer the question and give the background to it. I have answered questions on the matter in the past and am happy to do so again, even though I am not obliged to do so. The background to it is that my wife worked for Diageo. She no longer works there. During the time she was working for Diageo she received a number of shares. As we are a married couple a portion of those shares was in

our joint names. The matter was raised with me and I am in the process of taking them out of my name and they will be in my wife's name. They are part of the compensation she received when she was working for a company for which she no longer works. It will have absolutely no impact on any decision I make. Members will correctly charge me about many decisions I will make and I am accountable for that. I will never let any decision or interest such as that impinge on any decision I make. For the record, I have not worked for that industry. I declared those shares because it is right and proper that I do so in compliance with the legislation in the area.

Deputy Pearse Doherty: May I ask-----

Chairman: I am sorry, Deputy Doherty, you have gone over your time. I appreciate the Minister answering that question when he was not obliged to do so. I call Deputy Boyd Barrett.

Deputy Richard Boyd Barrett: I do not wish to spend much time on matters that have already been covered, such as the intricacies of medium-term objectives and the fiscal rules. I will concentrate on a view I hold and which was also expressed by a number of witnesses during our deliberations on the budget, which is that the fiscal space available, notwithstanding debates on whether we should recalculate it this or that way, is simply miserable compared with the requirements to invest in housing, health, education, public transport, climate mitigation and so forth. There is a list of strategically important areas of infrastructure spending and other forms of spending that will facilitate our economy becoming sustainable and robust in a volatile international environment. What does the Minister think about that? It is a very small amount of discretionary space to deal with the scale of the problems, most obviously, urgently and immediately the housing crisis. With regard to the housing crisis, does the Minister think that the plans, and the resources invested in them, are adequate to deal with the problem? The Minister has indicated that next year there will be 3,000 council houses and 5,000 social houses, whatever they are. That is against a background of 96,000 households on the list, although I believe that is an extremely conservative and, frankly, inaccurate figure. It is a drop in the ocean. Does the Minister not think we must dramatically increase the investment in social housing beyond what the Government has proposed in Rebuilding Ireland?

Social Justice Ireland says we need direct build of approximately 90,000 units over the next few years, whereas the Government's Rebuilding Ireland programme for direct build provides for much less. From the point of view of fiscal prudence with regard to Rebuilding Ireland, has the Minister calculated the cost of HAPS payments over the next number of years as against the cost of direct build, that is, the efficiency of relying overwhelmingly on HAPS, the private sector and making payments to private landlords, which in Rebuilding Ireland currently represents approximately two thirds of the money going out on housing plans, as against direct build? I am referring to the financial cost of that.

Chairman: The Deputy should discuss the budget. It is not the housing committee.

Deputy Richard Boyd Barrett: I am talking about the financial cost of it.

Chairman: I get your point.

Deputy Richard Boyd Barrett: Has the Minister compared, from a financial point of view, the efficiency of direct build as against HAPS? Direct build gives the State an asset and revenue stream, whereas the HAPS payment is money out that we do not recoup. Has the Minister done any mathematics on that?

Again on housing and property, given the limited fiscal space and the need to raise revenue

for housing and other things does the Minister not think that we should seek to have a form of landlords' tax or some taxes to get back some of the enormous profits that have been made by people in the property sector, such as landlords, vulture funds and so forth? Does the Minister think it is acceptable that he cannot even give us figures, unless he can do so today unlike in reply to questions I and others have asked to date, on how much tax will be forgone on the section 110 tax break? Everybody knows we are talking about hundreds of millions, if not billions, of euro. Does the Minister consider it fair or acceptable that we do not know how much tax is forgone under that tax break? Should we not seek to put special levies or taxes on that profit to give us some extra revenue?

Has the Minister thought about or considered increasing employers' PRSI as another source of potential revenue? We have one of the lowest levels of employers' PRSI in Europe. It is probably one of the big differences between our tax regime and the regimes of other countries in Europe. Last year, for example, we proposed that if there was a higher PRSI band for employers' PRSI for people earning over €100,000 it would raise €600 million. Has the Minister looked at this? Our proposal was costed by the Minister's Department.

A number of people have given evidence to the committee on many of the tax expenditures generally, such as research and development tax expenditures, REITs, losses brought forward and pension-based tax reliefs. One witness suggested there is in excess of €20 billion of tax expenditures. Has the Minister forensically looked at these and assessed whether they are good ways to expend tax revenue rather than changing them and getting extra revenue? Will the Minister get rid of the help-to-buy scheme?

Deputy Paschal Donohoe: I will begin with the landlord tax and I will make no comment on decisions I may or may not make on budget day. I will only offer a general observation that a challenge we have at present is the decreasing number of landlords who provide rental accommodation, and any decision to increase taxation in this sector would have to take account of this.

With regard to employers' PRSI, what the Deputy does not take into account in his analysis is that while we may have a low rate of employers' PRSI compared with countries the Deputy mentioned, we also have a jobs market that has responded with great speed to create new jobs. I contend that the employers' PRSI rate and the confidence people have regarding what it will be in the future has been a very important ingredient in the speed of job creation, which the Deputy would have argued would have been impossible a number of years ago.

With regard to homelessness and the housing market, the Minister, Deputy Eoghan Murphy, and the Taoiseach have already said we know we need to provide more homes. We know we need to create an environment in which there is more supply of more homes, and we will look to make further progress in this area on budget day and beyond. In addition to this, each day we see 80 individuals begin to access housing solutions that make a big difference to their lives. If we look at the amount of funding we spend on homelessness, we will spend just under €100 million this year on emergency services alone for people who are homeless. This represents a 50% increase on where we have been in recent years. One person being homeless and living in an alley or sleeping on a street is not acceptable to us and we will look at all steps we can continue to take to deal with this.

Deputy Richard Boyd Barrett: Will the Minister give us the answer to the financial question on the housing expenditure?

Deputy Paschal Donohoe: I was going on to answer it. The Deputy asked me about ten questions and I am working my way through each of them.

Deputy Richard Boyd Barrett: Fair enough.

Deputy Paschal Donohoe: With regard to the performance of the housing market overall, we know we need to increase supply but, for example, up to the end of this May we saw more than 16,000 homes being completed and made available to people, which is an increase of just under one fifth versus the same period a year ago.

With regard to the Deputy's question on the trade-off between direct build and the use of the housing assistance payment, if we look at all the difficulties we have with housing supply, one of the things we all know is how long it can and does take to build a home and make it available to people. It is of little comfort to someone who cannot get a home now to tell him or her we will have a new home built for him or her in two or three years. This is where the value of the housing assistance payment comes in. It enables people who have housing difficulties at present to access solutions in the here and now. Over time I want to see a rebalancing of this. The State has a duty to build homes directly for people. I welcome the decision, and I was part of it, to move to direct build for next year, and allowing local authorities to do this, as opposed to the State competing with private citizens for the acquisition of the limited number of homes.

With regard to the help-to-buy incentive scheme, I have received a report on it and I am considering it. I will deal with it on budget day.

With regard to the definition of fiscal space, it might surprise the Deputy to hear I share some of his concerns on fiscal space and how we use it. It appears extraordinary to me at times that we have debates about fiscal space, which is hundreds of millions of euro, when, for example, we collect and spend between €50 billion and €60 billion per year. This is why I have made the point that, over time, we should move to what is the right budgetary stance for our country. What are the right taxation decisions we should take? Fiscal space is very static and implies that it cannot be changed. We operate in a more dynamic environment than this.

Deputy Richard Boyd Barrett: May I ask one brief supplementary question?

Chairman: Yes.

Deputy Richard Boyd Barrett: Will the Minister confirm there is a change in the balance of public housing output as envisaged in Rebuilding Ireland? At present, Rebuilding Ireland proposes 87,000 houses will be delivered out to 2020 through the housing assistance payment as opposed to 40,000 through various forms of direct provision. This is two thirds to one third, with two thirds being current expenditure going out, year in, year out. The Government has given a figure whereby if we hit the target, €800 million a year would be going out in housing assistance payment to private landlords.

Chairman: A question.

Deputy Richard Boyd Barrett: Is the Minister considering shifting this balance? Surely the balance should be the other way around. Even if we accept the Minister's argument that the housing assistance payment is a temporary measure, Rebuilding Ireland does not propose it as a temporary measure. It proposes it as two thirds of the housing plan out to 2020. It is all money out the door with nothing returned in the long term as a State asset. Does the Minister propose to change it?

Deputy Paschal Donohoe: When the Deputy uses the phrase “direct provision”, what does he mean by it?

Deputy Richard Boyd Barrett: I mean the State building houses, which are then State assets and which generate rental revenue for the State, as against relying on private landlords and money going out the door every year that never comes back to us. It is just money out the door.

Deputy Paschal Donohoe: I cannot say now, primarily because it is a matter for the Minister, Deputy Murphy, and I must engage with him on what the long-term capital allocation would be for the Department of Housing, Planning and Local Government. If there is to be a change in the split versus what is laid down in Rebuilding Ireland, it will be a matter for the Minister, Deputy Murphy, and I will help him in any way I can.

Deputy Richard Boyd Barrett: It is a financial matter.

Deputy Paschal Donohoe: Everything is a financial matter-----

Deputy Richard Boyd Barrett: A big one.

Deputy Paschal Donohoe: -----at the end of the day in terms of decisions we make, but I try to make all these decisions in the context of what I said to Deputy Ryan earlier, that I am deeply aware of the anxiety and difficulty faced by people who cannot get a home. We are trying to do the right thing to change the supply of homes in Ireland to deal with this. The matter of the long-term direction of Rebuilding Ireland is something I am working on with the Minister, Deputy Murphy, and it is a decision he will make in the context of whether I can make more resources available to him. I offered the view, which I stand by, that in the long run we want to be in a position whereby as our economy gets back up to normal housing output, the State is either building homes via local authorities for people who need them and in which they can live, or we have a more normal housing market that delivers the type of homes priced at the right level that our country needs. I am conscious of the fact we have not reached this level of equilibrium for many years. The history of the housing market in Ireland is moving from one set of difficulties to another. This is why I am careful about trying to put in place a long-term framework to deal with the difficulties we have.

Deputy Thomas P. Broughan: I welcome the Minister and the departmental staff. An issue about which we all feel deeply is affordable housing for young people who, if they were given some supports, could buy their own homes. The Minister, Deputy Murphy, stated recently that he will announce a major new scheme within the coming fortnight. Is this something the Minister has funded for 2017 or is it part of the 2018 budget?

Where will the Minister go this year with regard to the Christmas bonus? How will he fund it and fund the water refund? Where exactly are they in the Minister’s calculations?

Deputy Boyd Barrett raised the point of tax expenditures. The estimates for tax expenditure was €5.4 billion in 2014. What is the latest estimate? Could it be as high as €20 billion? This time last year we were looking at section 110 and some of the other incredible scams. This morning our colleague, Deputy McDonald, raised the issue of the extraordinarily generous tax concessions which will be given to AIB and the other banks over the next 20 years. These tax expenditures are astonishing. The Minister mentioned the *ex post facto* cost-benefit analysis. In respect of the 9% VAT rate for hospitality businesses, or whatever new rate the Minister might introduce in the budget, I asked the Minister a parliamentary question, which was not reached during oral questions, about the number of people in the Department who are looking

at the cost-benefit analysis of such expenditure and how some of it could be clawed back. The importance of tax expenditure is my second point.

Third, this is the second Fine Gael-Fianna Fáil budget in that the parties seem to have agreed basic parameters and seem to be delivering within them. If there is a similar result in the next election which results in a change of position of the partners, I suppose Deputy Michael McGrath will be sitting here with those of us who survive the election and the Minister will be on this side working with him. What kind of consultation takes place between the two parties to come up with the budget which the Minister will present? For example, on income tax, I made a proposal last year in my own personal submission which seems quite similar to the proposal the Taoiseach, Deputy Varadkar, has made this year. Fianna Fáil seems to have a different proposal on USC. Is that so-called squeezed middle of concern to the Minister?

On tax diversification, the Irish Fiscal Advisory Council, IFAC, has made some comments, which are quite troubling, in respect of the corporation tax situation beyond 2020 and how it should be prepared for. On the diversification front, is any work being done on modernisation of tax rates? Many of us have proposed, year after year, a third, higher tax rate or possibly a wealth tax. The ESRI prepared a very good working paper on a wealth tax, No. 549, which I am sure the Minister has read. It outlined the possibility of a modest wealth tax raising €1.25 billion on the basis of 5% of our households owning 55% of our wealth. We do not know the figure because we have no information.

My fourth point is on excise. Does the Minister have a global figure in mind? We have heard talk of a sugar tax being good for us. We have heard about diesel rates, even though those of us who still drive diesel cars are apprehensive about this development and so many car makes moved towards diesel. We have heard about cigarettes and so on. Does the Minister have a global figure in mind in terms of pushing the fiscal space out through excise duties?

To make one final point about debt, there is a still huge chunk of money, €7 billion or so, being used for debt repayments in addition to the net contribution which we now make to the European Union and there is a fear that contribution will increase after March 2021. Does the Minister have concerns in this area? I have raised the issue of the 2018-2020 refinancing with the Minister.

Deputy Paschal Donohoe: In respect of the plan on which the Minister, Deputy Murphy, is working, he will make that decision but it will be funded. I am engaged in discussions with him at the moment regarding the future of funding for the Department of Housing, Planning and Local Government for 2018. Any decision he makes will be in the context of the base funding he had for 2017 and any agreement I make with him on budget day.

In respect of the Christmas bonus, there will be another Christmas bonus this year. I will be in a position to confirm what it will be on the day of the budget. In respect of refunds of water charges, they will be funded through expected current expenditure underspends which are surrendered to the Exchequer at the very end of each calendar year. I have a clear idea of where they are at the moment and we will use those funds, which would otherwise be surrendered, to pay for the refund of water charges to those who paid them.

In respect of the cost-benefit analysis on the hospitality VAT rate, my Department has offered me an analysis and options for the future of that rate. That rate, however, like any other taxation decision, is a matter which I will address on budget day. On tax concessions, the figures which Deputy Broughan quoted a moment ago are in line with the most recent figures

available to me. As he will know, we carried out a report on tax expenditures in 2016. I will ascertain if another report is available and, if so, I will share it with the Deputy. The total figure which was available at that time, however, was €5.4 billion. Those tax expenditures or releases went into a wide variety of different areas, all of which deliver either an economic or a societal benefit. For example, €550 million was expended on research and development tax credits. Another €355 million was used for medical insurance relief.

In respect of the agreement which my party has with the main Opposition party, Fianna Fáil, we are parties with different political identities. It made a constructive effort to put a Government in place across the period of this Dáil. I will honour that agreement, as I expect it will. As to my future, if I am on the other side of this Chamber in coming years, I will be delighted to be in public life in any way. I will do my best in any job which I am given.

On the diversification of taxes and the Deputy's suggestion for a wealth tax, I have seen few examples of wealth taxes working well in other countries. I think it would be particularly difficult to implement one within the European Union. In an environment in which there is freedom of capital and freedom of movement, I would be concerned that were a wealth tax to be brought in, it would look very good for a period and then we would see capital and wealth move out of our country to avoid such a tax, which in turn would have a negative effect on the economy.

On the modernisation of tax rates, I do not propose to bring in a third rate of income tax or a further rate of taxation. In respect of gross tax collection figures for next year, I have an idea of what that figure needs to look like, but that is obviously one which I will announce on budget day.

In respect of the costs relating to our membership of the EU and the costs of servicing debt, the repayment levels on our national debt are in line with what the Deputy said. Our recent publication of the modified gross national income, GNI*, information made the point that if one considers that modified version of national income, which strips out the ebbs and flows resulting from our very globalised economy, we have a very high level of public debt for a small, open economy. I want to see that debt come down over time, but I do not believe the way to decrease it is by reneging on commitments which we made in respect of that stock of debt.

In respect of the costs of our membership of the European Union, the Deputy is correct. The contribution which we make for membership of the European Union will increase in the coming years as we become a net contributor. That is something which we will have to factor into our budget calculations.

Deputy Thomas P. Broughan: We are a net contributor now, are we not?

Deputy Paschal Donohoe: The Deputy is correct. I meant as we become even more of a net contributor. That contribution is definitely worth paying for our membership of the Single Market and a project which is all about realising the political freedoms of our citizens. The value of the European Union in the coming years will become even more apparent than it is now.

Deputy Martin Heydon: I thank the Minister and his officials for coming in today. I will start with the allocation of €4.1 billion in additional capital expenditure between 2018 and 2021 which the Minister referenced in his opening address. How does he expect that figure to break down during the four years, especially for 2018? Does he see a clear division of the €4.1 billion over the four years or will some projects be more costly in the second and third year of that period?

In terms of health spending, I am mindful that last year's budget saw record levels of funding for the health sector, both in percentage terms and in overall terms. It made up approximately 25% of expenditure in last year's budget. With regard to this budget and any future budgets over which he might preside, does the Minister envisage health funding needing to be at that level? Was there an element of catching up last year due to demographics and the fact we are catching up on a number of years of not being able to spend on that sector? In broad terms does he see health remaining at the same level of priority, or needing to, from an expenditure point of view?

What are the costings involved in moving towards an equalisation of the self-employed tax credit? In light of the fact that property prices are rising, has there been an analysis of the impact on capital acquisitions tax?

Regarding the broad area of social protection, the quarterly national household survey, QNHS, saw unemployment down by 55% from the first quarter of 2012 to the first quarter of 2017, which mirrored a 28% reduction in the live register for that period and a 61% reduction in the long-term unemployment figures. At the same time, 230,000 people found new jobs, representing a 13% growth in employment. While I accept that getting the little over 6% of people who are unemployed into labour is more challenging than going from 15% to 6%, what is the Minister's view of the overall social protection budget, given the easing of funding pressures as a result of the number of people who are back at work? How best can we use the space this creates to promote a better society and improve people's lives?

Deputy Paschal Donohoe: The figure moved to €4.1 billion because we made available a further €1.5 billion, or €500 million for each year from 2019 to 2021. My expectation from dealing with many large infrastructural projects, be they roads, public transport, schools or homes, is that, due to the length of the planning process and the need to go to tender, the large expenditure on many of them will not begin until that point anyway.

As to whether health expenditure will grow, the answer is "Yes" even though it is now at its highest level ever. There are challenges in the form of the cost of new drugs and the nature of our demographics. Our high fertility and birth rates compared with the rest of the EU have been of unbelievable benefit to our country, and many of our citizens are living for longer. For these demographic reasons alone, health expenditure will continue to grow. We must ensure it grows at a rate that meets the needs of those who depend on our health services while allowing us to make progress on many other priorities as well.

Regarding the self-employed tax credit, a €700 move in the income earned credit would cost €59 million in the first year and €106 million in a full year.

As to the effect of changes in unemployment levels on social protection policy, the then Department of Social Protection, which was led strongly by Deputy Burton across the period in question, went to great lengths to ensure benefits would be available to people facing the difficulty of being unemployed during the economic crisis. If we move to a position of full employment in the coming years and our labour market continues to be healthy, I expect there to be a strong focus on payments and policies that directly feed through to reductions in poverty levels among certain cohorts of our society. I hope this focus will become more eminent in the coming years.

Chairman: I thank the Minister. Just to update him, Deputy Lahart will ask questions next, followed by Deputies Burton and McGrath. If it is okay with everyone, we are aiming to finish

by 5.30 p.m., although it would be even better if we finished before that. Deputy Quinlivan also wishes to contribute.

Deputy John Lahart: I thank the Minister and his officials for the presentation. I have a couple of direct questions to ask and will not make statements. Is the Minister a Coca-Cola drinker or is he a Coca-Cola Light or Coke Zero Sugar consumer?

Deputy Pearse Doherty: I think this might be ruled out of order by the Chair.

Deputy Paschal Donohoe: I enjoy many forms of fizzy drinks.

Deputy John Lahart: The Minister brackets them all as “fizzy drinks”.

Deputy Paschal Donohoe: I just refer to them as that.

Deputy Joan Burton: The Minister is too sweet.

Deputy John Lahart: I ask because of the sugar tax that has started to be mooted in the media of late. Is it right to discriminate between those drinks that have sugar and are sweet and those that do not have sugar and are sweet when it comes to taxation?

Deputy Paschal Donohoe: The reason for this policy is to reflect the fact that health policy and evidence in this regard show major benefits to our society, particularly its younger members, if large amounts of sugar-sweetened drinks are not consumed. The way in which the matter is measured and viewed by ourselves and other countries is in terms of the amount of sugar contained in a sweetened drink.

Deputy John Lahart: As we all do, the Minister will know that, in predicting a move by governments internationally, the major manufacturing companies have moved away from investing in sugar-sweetened drinks towards non-sugar-sweetened drinks. Does he have a view on how this might be reflected in tax policy?

Deputy Paschal Donohoe: It is something I welcome. It lessens some of the negative health impacts we are trying to address because it reduces the consumption levels of many of these drinks. It proves the merit of what we are trying to do. We are introducing this measure. It is one of the few measures on which I have been crystal clear, given it was flagged in last year’s budget in anticipation of drink manufacturers assessing how they want to manufacture and supply these drinks. That process has been under way during the past year and is welcome. From my engagement with the Department of Health, though, it contends that we still have significant health issues due to the overconsumption of these drinks.

Deputy John Lahart: Does the tax only apply to fizzy drinks?

Deputy Paschal Donohoe: It will apply to sweetened drinks that have sugar in them.

Deputy Martin Heydon took the Chair.

Deputy John Lahart: I thank the Minister. Did the reduction of recent years in the hospitality sector’s VAT rate make a difference to it and the tourism and food industries more generally?

Deputy Paschal Donohoe: Yes.

Deputy John Lahart: Will the Minister develop that answer?

Deputy Paschal Donohoe: It played a valuable role at a point in time in the creation and retention of jobs.

Deputy John Lahart: At a point in time.

Deputy Paschal Donohoe: Yes. The measure is under consideration by me and others. I have made no decision on the matter. I will announce what we will do on budget day.

It does not matter how short the Deputy's questions are. That is the stance that I am adopting on all taxation measures. Any statement from me now on an individual measure has consequences.

Deputy John Lahart: I appreciate that. The committee received presentations from a number of bodies, with ICTU being especially strong on the notion that the reduction in the VAT rate contributed to a reduction in working conditions in the hospitality sector. Does the Minister have a view on that?

Deputy Paschal Donohoe: As a former Minister for tourism, I was heavily involved in the sector at the time. I do not believe the measure contributed to a change in working circumstances or incomes in the sector. Given where we were in the economic cycle, it played a positive role in the creation and retention of jobs. I will now examine the economic evidence surrounding that tax rate and, as with every other rate, decide what is appropriate. At the point it was introduced, it did not play a role in the deterioration of income for those working in the sector. My contention would be that the opposite happened.

Deputy Josepha Madigan resumed the Chair.

Deputy John Lahart: Does the Minister think price gouging exists as is anecdotally reported, particularly in Dublin? I have heard that Mayo supporters who travelled frequently experienced significant increases in the cost of hotel rooms. Do the Minister or his officials have any evidence of that?

Deputy Paschal Donohoe: The changes in hotel rates in Dublin send out a signal regarding the competitiveness of our country and the ability of people to come and visit us. When I was Minister for Transport, Tourism and Sport, I made the point that if trends that were evident then continued, it would cause a difficulty for us in the future. However, I also stated that I understood that the reassessing of price levels within that sector was needed to make the construction of more hotels and hotel rooms viable. While I am aware of and share some of the concerns about the pricing of hotel rooms in Dublin, I can also see the delivery of more hotels and hotel rooms. As the Deputy knows, I do not make a decision about the performance of tax rates within a particular city, even if it is our capital. Other parts of the country continue to experience difficulties in the development of tourism and getting people to visit and stay. I will be examining the national performance of that tax, not just its performance in our capital city.

Deputy John Lahart: There has been a lot of talk about hidden fiscal space. I think the Taoiseach was the first to introduce the term. The term implies that it is concealed and not apparent and that we have to go looking for it. Has the Minister gone looking for it?

Deputy Paschal Donohoe: I am having very intense discussions with every Government Department at the moment. When the Taoiseach introduced the concept of hidden fiscal space, he was talking about savings that could be delivered in terms of efficiencies and making sure we can provide existing services better. That led to the publication of papers in the comprehensive

spending review, which looked at every Government Department to see if there were opportunities for services to be delivered better. They are now featuring in the engagement I am having with every Government Minister.

Deputy John Lahart: What Departments might be featuring more strongly in that voyage of discovery?

Deputy Paschal Donohoe: Every Department is in that vessel with me.

Deputy John Lahart: Excellent. Is the vessel heavily weighed down?

Deputy Paschal Donohoe: As the vessel has a price tag of €60 billion, I am not sure if it is particularly heavy. We spend a huge amount of money on the delivery of additional and current services. I do not want to get too lost in discussion of vessels, heavy vessels, fiscal space or hidden fiscal space. One of the things I regret about the focus on fiscal space is that we always have a look at the increment. The increment is a very small part of the huge amount of money we are spending on services and using to deliver projects day after day. If we can make changes in those areas, and if we can make better policy choices, it can deliver money that we can reinvest back into delivering better services for people. That is the only approach I am using.

Deputy John Lahart: If the Minister does discover hidden fiscal space, it will be invested in services. Is that correct?

Deputy Paschal Donohoe: Given that I am dealing with Departments, my expectation is that if and when we make savings or identify ways in which services can be better delivered, they are reinvested back within those Departments. Any resource choices that I make overall will be consistent with the 2:1 split between expenditure and taxation that has been agreed between the Government and Deputy Lahart's party.

Deputy John Lahart: I thank the Minister. We are two weeks away from the budget. When does he expect the line to be drawn under that investigation in terms of where savings might be found?

Deputy Paschal Donohoe: It will be ongoing until the last moment.

Deputy Joan Burton: If I may make one general comment at the beginning of my contribution, I am really disappointed that there are no women at the top table of the finance team. In this day and age, I get fed up that myself, Deputy Madigan and a small number of others are very often the only women in the room. I understand that the Minister and his officials as individuals possibly have nothing to do with this. However, I have to make the point.

The Minister's colleague referred to hidden fiscal space. I have been told by some that the hidden fiscal space potentially includes the fall in unemployment as reflected ultimately in the Department of Employment Affairs and Social Protection's budget. If my memory serves me very well in respect of a lot of very difficult discussions, the unemployment figures are calculated by DPER in conjunction with social protection and are worked into the base. Unless there is something dramatically wrong in the estimate of the figures, I fail to understand how that can be calculated as some kind of hidden fiscal space.

This goes to the heart of what happened last year, when we had a joke meeting in the morning - with due respect to the officials - and by that afternoon there was €300 million to €400 million extra. Allied to this, given that this is broadly the third year of a very significant increase

in self-employment, whether genuine or bogus, anybody involved in tax would expect a very significant rise in the profile of the tax receipts from the self-employed in November. I am sure the Minister and his officials are looking at those figures on a weekly basis at this point. What is his estimate for the surge in self-employed taxes come November? There is already quite a surge provided in the profile but my view, from all the data and just from talking to people in business, is that it is going to be very significant.

The Minister has already said he cannot talk about the budget and so on. However, if this is €300 million to €400 million, and I think it could be half a billion, the Minister needs to play fair with this committee if it is to have any purpose. That is important. Obviously, the issue relates to the so-called hidden fiscal space. I still do not understand what exactly the Minister means by it, hidden or visible.

Deputy Paschal Donohoe: On the status of the live register and projections for it, it is a completely different thing from the discussion we are having on the so-called hidden fiscal space. The Deputy is correct about the forecast for the live register. We look at this point in the year for next year. In response to the questions Deputy Lahart put to me a moment ago, I tried to explain that the hidden fiscal space is really the idea about finding efficiencies in respect of money we are spending. Deputy Burton will know that each year we look at what we expect the live register to be for the following year in the context of how the labour market has been improving over the previous few months.

In respect of the Deputy's question about the self-employed, I am not expecting any big difference beyond what we have laid down in the profile for October, November and December. Any increase that we receive has to be in the context of the fact that the income tax receipts for this year were €220 million or 1.8% below profile by the end of August. Any change in self-employed tax receipts will be placed in the context of closing the gap for total income tax collection.

Deputy Joan Burton: I understand from the Minister's statements that he will provide for the refund of water charges this year out of current resources. Can he confirm that?

Deputy Paschal Donohoe: Yes.

Deputy Joan Burton: I have seen no indication that he would do otherwise.

Deputy Paschal Donohoe: That is correct.

Deputy Joan Burton: Also, he has to provide for the Christmas bonus out of current year resources. Effectively, we are talking about a great deal of money coming through simply because of the growth in the economy, notwithstanding that the income tax profiles are behind.

Moving on to another area, as the previous speaker said, if we are going to expand services to the level that the Minister spoke of, he may need to raise taxes in certain areas. The Government has indicated with respect to a sugar tax and also excise duties, but I imagine excise duties are almost reaching the point of being maxed out in terms of tax take. Has the Minister at this point scoped any tax efficiency measures which would provide for the closure of areas of evasion and loopholes, which, to be honest, as the Minister is aware, are inevitable? Tax is like a chess game - the Minister writes a finance Bill and clever people sit down and work out how to circumvent it. That is the way it works in all the legal and accounting offices in town. This time last year, when I asked the Minister's predecessor about the issues arising from the question of offshore assets, he suggested that would yield €20 million or €30 million. In fact,

in terms of the partial returns to date in the report - a copy of which I have got and which was given to the committee, for which I am grateful - the yield was actually €79 million and the full extent of offshore assets has not yet been trawled from the details I received from the Minister's Department.

I refer to another example, that of the dwelling house exemption introduced in the 1990s for a brother and sister living in a house together. They did not have a marital relationship or a child-parent relationship, so where when one died, the other ended up paying tax. That was something I raised with the Minister's predecessor.

The report I got recently showed an average tax avoidance of more than €70 million a year, approximately €216 million during the past few years. I want to ask the Minister-----

Chairman: I ask the Deputy to make this her last question and to allow the Minister to reply.

Deputy Joan Burton: I raised the issue last year of the extraordinary amount of tax losses built up by the banks and by the construction industry. In this context, why would the Minister not introduce a minimum effective corporation tax and other tax rates, even including relevant capital taxes, in order that people who have very good advisers to help them to avoid and evade, notwithstanding whatever schemes they use, would have to pay some tax? I would like to hear the Minister's attitude to that proposal.

Deputy Paschal Donohoe: Regarding tax efficiency and the closure of loopholes, the Deputy described it very accurately as a chess game. One makes one change and the next day another change happens that offsets it. That is the reason I am being careful about what I say here today. I have already approved for the finance Bill a number of changes for that Bill to deal with our understanding of a number of issues that need to be addressed. If the Deputy has matters that need to be dealt with and on which I agree with her, I will deal with those in the context of the finance Bill. If she has particular issues she wants to raise with me on it, I am happy to examine those because we are trying to deal with some matters in that area.

On the Deputy's point regarding the way we are funding refunds for water charges, she was correct that they are being funded from current resources this year. That is the case.

On the issue of minimum yields from certain tax rates, the Deputy will be aware that there are a number of reasons that is very difficult for the country to do. The tax affairs of every individual in every company are different. Our tax code is not set in the context of a company or an individual, rather it is set impartially for sectors of our economy and that must be implemented in a way that reflects the individual circumstances of each individual or company. The fact that we did not choose that method of taxation when our country went through an economic crisis in a Government, of which the Deputy was a member, shows the reason introducing a measure like that could be profoundly counter-productive to our country.

Deputy Joan Burton: Can I just say-----

Chairman: Last question, Deputy.

Deputy Joan Burton: I would say to the Minister on that point that the evidence shows otherwise. I would recommend that he develops courage around this. His two Fianna Fáil predecessors as Ministers for Finance agreed with me. They eventually commissioned a report on the cost of tax breaks. It took a little while longer to get that published but people were aston-

ished at what it showed. This committee and the Minister and his officials could do a great deal of good work by agreeing as an output from this committee, with the support of all parties, that we have on an annual basis not only the tax strategy material because that is not directed to this particular objective, but a report on tax evasion and tax avoidance on an annual basis because, as the Minister said, it is a game and it is gamed all the time.

I can bring to the Minister, and I will do so, information on all sorts of areas which are being badly hit now, including hospices in Ireland, and I am sure every one of my colleagues could bring him information on other areas. If he does not play catch-up in terms of generating sufficient tax revenue, we will not be able to address these particular issues. Those tax revenues that are avoided are often deeply unfair. The minimum effective tax rate has transformed the take from income tax because it applies now - his officials or the Revenue Commissioners can confirm this - across the income tax front.

Chairman: Thank you, Deputy.

Deputy Joan Burton: I cannot see any reason that it should not apply across the corporation tax front. I am talking of a minimum tax rate. We are talking about fairly low rates, which we would put forward, in a progressive way, and monitor, along with the annual reports on evasion and avoidance, in order that citizens can have the services that they would like to have.

Deputy Paschal Donohoe: I will not be lacking in courage in trying to deal with issues that I believe need to be dealt with. I was addressing my comments in regard to the Deputy's proposals for minimum corporation tax rates and minimum tax rates for individuals as opposed to the point that she made about tax expenditures and loopholes. I would be very happy to work with the committee, either in the context of the Finance Bill or after it, regarding views members have about issues that we might need to tackle.

Deputy Burton is correct about the changes that have been made in our income tax code that have the consequence of creating minimum effective tax rates for individuals who pay income tax. If we did not introduce minimum tax rates for corporation tax and business tax at a time when our country was broke and we were trying to find additional ways of raising taxes, that shows the difficulty in doing it. A measure such as that proposed, particularly in regard to corporation tax, would pose huge problems for the predictability of that tax code. As the Deputy will see from the Coffey report, of which I know she has copy and that she debated it with Mr. Coffey a while ago, one of the tables in it shows the gradual narrowing of the differential between effective and nominal rates of corporate taxation.

Deputy Joan Burton: I would add just one brief comment.

Chairman: A very brief comment.

Deputy Joan Burton: I do not believe that as a society we can stand over corporations which are approaching or have exceeded €1 billion in recovered profits and which have in the notes to their balance sheets tens of billions of euros in terms of potential tax write-downs, meaning that for a considerable period of time they will pay no tax at all. That is beyond the comprehension of most ordinary citizens and probably everybody here who pay quite a lot of income tax through PAYE.

That is not sustainable.

Deputy Paschal Donohoe: That is why we have a bank levy.

Deputy Joan Burton: Will it be increased?

Deputy Paschal Donohoe: As I said, I will deal with tax measures on budget day.

Deputy Michael McGrath: I welcome the Minister and his officials. I will keep the discussion interactive, if I may. My questions will be relatively succinct. In previous years, including last year, significant late changes totalling hundred of millions of euro have been made to the calculation of fiscal space. Does the Minister expect any change or significant change to net fiscal space and when will the final decision be nailed down?

Deputy Paschal Donohoe: I am not expecting any change in net fiscal space.

Deputy Michael McGrath: There will be no change at all.

Deputy Paschal Donohoe: As budget day approaches and the matter is considered there can always be changes but I do not currently expect there to be any such change to the figure I have provided.

Deputy Michael McGrath: Is there any scenario in which it would significantly change by up to €100 million or €200 million?

Deputy Paschal Donohoe: I cannot currently foresee that occurring.

Deputy Michael McGrath: In regard to the Coffey report that has been published and on which the Minister has indicated a consultation exercise will commence on budget day, Mr. Coffey has said that some of his recommendations should be the subject of a consultation period but he does not make that point for them all. Is the Minister considering including some measures in the budget to deal with certain recommendations he did not indicate should be subject to consultation?

Deputy Paschal Donohoe: My attitude to the proposals in Mr. Coffey's report is the same as my views on other taxation matters I have discussed this afternoon, which is that I will consider such issues on budget day. Many matters in the report are worthy of consultation and I plan to announce such consultation process to begin on budget day through the international tax strategy papers that the Department publishes most years.

Deputy Michael McGrath: The Minister is not ruling out moving to implement some of the recommendations through the finance Bill.

Deputy Paschal Donohoe: The answer to the Deputy's question is the same as that in respect of any other tax measure.

Deputy Michael McGrath: There has been little or no reference to Brexit during today's meeting. Will the budget contain a Brexit package, in particular for SMEs operating in sectors that are potentially very exposed to the outcome of Brexit? Some complacency may now be entering the debate on this issue because of the growing likelihood of a transition period after March 2019 but that is not certain and we do not know what we would be transitioning to, which is an important point. Is the Minister considering specific measures such as enhanced supports through Enterprise Ireland, taxation elements and the issuance of cashflow? A good scheme for the agri sector was implemented in recent months and was snapped up. Will the budget contain a Brexit package?

Deputy Paschal Donohoe: Yes, it will. I am not complacent about the level of challenge

our country faces. While it is very positive that there is now a focus on a transition period that has the potential to be as close as possible to the customs policy we have now, that has not yet been agreed. The big question is in respect of what will be at its far end. For those reasons, the budget and the work of every Minister will continue to have a large focus on Brexit.

Deputy Michael McGrath: Can the Minister confirm he has the report on the taxation of rental income, which is relevant to the housing crisis, and if it is being considered in the context of the budget? What does he intend to do with it?

Deputy Paschal Donohoe: I have received it, it is being considered in the context of the budget and I will publish it on budget day.

Deputy Michael McGrath: Will it be subject to consultation or published and decisions made?

Deputy Paschal Donohoe: It will be published.

Deputy Michael McGrath: Last year the then Minister, Deputy Noonan, committed to the introduction of a share-based remuneration scheme in this year's budget. Can the Minister elaborate on what has been done in that regard? I do not ask him to make any budget day announcements but that commitment was given. Have the necessary steps been taken in preparation for it?

Deputy Paschal Donohoe: The necessary steps have been taken. Much work has been done on that scheme in the past year and some remains to be done over the next few weeks.

Deputy Michael McGrath: Similarly, although it is ultimately a matter for the Minister to confirm or not on budget day, in respect of announcements made last year but which have a multi-annual dimension there was an announcement that DIRT tax will be reduced by 2% per annum over a four-year period. Will those commitments carry through to this budget and the two to follow and how does the Minister regard previously-made multi-annual commitments?

Deputy Paschal Donohoe: Several commitments were made in that area. The rate of DIRT on deposit accounts is currently 39%. It was 41% between 1 January and the end of December 2016. I will consider the commitment made by Deputy Noonan but, whether it is a multi-annual commitment or one that has been given elsewhere, I must deal with it on budget day.

Deputy Michael McGrath: The issue of a sugar tax was raised. Last year the then Minister, Deputy Noonan, stated the intention should be to introduce the tax to coincide with the introduction of a sugar tax in the UK in April 2018. Can the Minister update the committee on the position in relation to a sugar tax in the UK and what impact, if any, that will have on his decision in the context of the budget?

Deputy Paschal Donohoe: I am committed to introducing the sugar tax because it was a clear, principled commitment given in last year's budget but I will only do so if it is consistent with developments taking place in other jurisdictions because if I were to bring in a sugar tax in this jurisdiction and a similar levy were not in place elsewhere, all that business would be sourced outside of Ireland. In advance of making and implementing that decision, I will check on the situation in other countries in regard to a sugar tax.

Deputy Maurice Quinlivan: I thank the Minister for his presentation. I am standing in for Deputy Cullinane who unfortunately could not make it to the meeting.

There has been much discussion of the 9% VAT rate. Can the Minister clarify the legal position on the number of VAT rates permitted by the European Union? Is it the case that to increase the 9% rate to anything between 9% and 13.5% would require all products at the 9% rate, including newspapers, hairdressing and services, to increase? Can he confirm that a single product at 9% could legally be increased to 13.5%? As he knows, the EU is not very fond of what it calls the VAT gap in Ireland. Would any change require its permission? What analysis has the Minister's Department carried out on the costs and benefits of the 9% rate?

Will I pose all my questions together or allow the Minister to come in on each one?

Chairman: Perhaps the Minister can respond and I will then return to the Deputy.

Deputy Paschal Donohoe: The current VAT rates are 0%, 9%, 13% and 23% and they can only be applied on sectors. Irish law is constructed in such a way that, for example, the same VAT that applies to hotels applies to the service sector and, for example, newspapers.

Deputy Maurice Quinlivan: The Minister and the Taoiseach discuss with one another how tax cuts will be funded and that the levy of excise duty on cigarettes will be increased. The Fine Gael manifesto stated that an annual 5% increase in excise duty on cigarettes would bring in €349 million over the term of a Government. In its manifesto, Fianna Fáil stated that adding 90 cent to the excise duty would bring in an additional €108 million over five years. The programme for Government notes that reductions in personal taxes such as the continued phasing out of USC would be funded largely through, among other things, higher excise duties on cigarettes and increased enforcement and sanctions on their illegal importation and sale.

However, the tax on cigarettes has gone up since 2007 from €2.07 to €3.35, which is a 64% increase in the period, while the excise from cigarettes has actually gone down from €1.192 billion to €1.098 billion. The Revenue Commissioners are very clear on this and I want to quote what they say as follows:

Forecast receipts of tobacco products tax use an elasticity measure to partially reflect the responsiveness (or change in behaviour) of smokers following duty and price changes. Increases in duties are forecast to lead to increases in receipts, albeit recognising that some smokers will consume less and consequently some of the increases in receipts from higher prices are negated. Further cigarette price rises, particularly at the higher end, may not increase Excise receipts and this is indicated through the use of the range of estimates above. To reflect the potential variations in consumption change in smokers, the range above is based on varying the elasticities used in the forecast calculation.

Chairman: Does the Deputy have a question?

Deputy Maurice Quinlivan: It is coming now. I just wanted to quote that from Revenue so it is clear what we are saying. Revenue is very clear in the ready reckoner that while a 50 cent increase could bring in €61 million, it could, equally, bring in a loss of €40 million. The facts speak for themselves. Increasing excise duties does not always equal more revenue for the State. Does the Minister agree, therefore, that it is very dangerous to base his plans on an increase in excise duty?

Deputy Paschal Donohoe: I can think of a few taxes that would have more of an effect on their collection tomorrow than customs and excise tax. I will leave the decisions on cigarettes to budget day, but I am aware of the fact that the impact of plain packaging efforts to reduce the illegal supply of cigarettes into our country has changed the ability of that form of taxation

to yield lots of additional money. If we were to decide to do it, and these are all decisions that will be made in the coming days, I would never intend that to be a tax that could yield the kind of money needed to fund big improvements in services or changes in our tax code elsewhere.

Deputy Maurice Quinlivan: I thank the Minister for his answer. Unfortunately, Ministers and taoisigh often say they will use increases in excise. In his opening statement, the Minister spoke about progress on unemployment rates, which is obviously welcome. The fewer people who are unemployed, the better. However, the summer economic statement shows the Government is planning to leave unemployment at 5.5% from 2019 onwards. Based on employment numbers, that could be up to 120,000 people. The Minister also commented that he considered 5.5% to be almost full employment. Is that what he is saying there? It is acceptable to leave 120,000 people without a job from 2019 onwards.

Deputy Paschal Donohoe: We did not say we were going to leave people unemployed, we simply-----

Deputy Maurice Quinlivan: The summer economic statement says otherwise.

Deputy Paschal Donohoe: No, it does not. The summer economic statement lays out our forecasts for how we believe the economy is going to perform. We believe there is a possibility that the labour market could move to that level of employment. One person being unemployed is one person too many for me. However, at the peak of an artificially driven boom in our country, the unemployment rate was still 4.5%. As such, there is a level below which it is very difficult to drive that figure, principally because of the number of people who may be long-term unemployed. What we have there is a forecast, not an objective.

Deputy Maurice Quinlivan: Yes, but the forecast is that it will be 5.5% for the years to come. My final question is on Brexit, which Deputy Michael McGrath mentioned. Obviously, the Minister has received requests from the IDA and Enterprise Ireland for additional funding. I do not expect the Minister to answer as to whether he will provide it, but I assume he is looking at whether there will be increased funding for the enterprise agencies.

Deputy Paschal Donohoe: Deputy McGrath raised the issue of Brexit and we are having a look across all different parts of Government and agencies regarding policy choices we might make that might help our economy respond to Brexit. Agencies and all Departments are contacting me now to say what they want and I am trying to make decisions on the basis of the available funds for next year.

Chairman: Everybody has had ten minutes so we are into additional questions. I am going to allow two questions. Deputy Doherty has indicated but I am not sure about anyone else, for example, Deputy Michael McGrath. It is two questions and then we are finished.

Deputy Pearse Doherty: There are two subjects, one very quickly. I would like a little bit of over and back but I will try to be as quick as possible. The Minister has a report on the help-to-buy scheme and has said he will make an announcement on budget day. On foot of an amendment proposed by Deputy Michael McGrath, the previous Minister for Finance committed that the report would be laid before the Houses of the Oireachtas before or at the end of September. Will the Minister honour the commitment to publish the report before the end of the month so that Deputies and Senators can see it before the announcement on budget day?

Deputy Paschal Donohoe: I was not aware of that commitment. It is my intention at the moment to publish it on budget day. I will have to check, and will check, to see if such a com-

mitment was given in the past.

Deputy Pearse Doherty: He committed to the same timelines as were in the original amendment, but I will leave it to-----

Deputy Paschal Donohoe: If there is an amendment that reflects it-----

Deputy Pearse Doherty: The amendment was withdrawn on the basis of the commitment.

Deputy Paschal Donohoe: It is important when we are looking at reports to remember that what people need when they are making decisions on their home purchases is clarity and certainty regarding where choices are going to lead. I will reflect on what the Deputy has said but I do not want it to be the case that we publish a report in advance of when decisions are being made that might lead to some uncertainty for people for a number of weeks. However, I will look at what commitment was given.

Deputy Pearse Doherty: Okay. I thank the Minister. The second question is the issue of what is happening in the housing market which directly affects the Finance Bill. This is about our experiment with REITs. When one drills into the CSO figures, they are startling. In Dublin, for example, from 2007 to the end of July 2017, 42% of new houses in Dublin were bought by non-household buyers. It is a staggering amount. It is more than those of first-time buyers. Non-household buyers are predominantly REITs, of which there are three in the market. There are non-market sales, which are predominantly the social authorities buying up houses, but these 42% are predominantly from REITs. We have looked at the published accounts of the three REITs. The rental income was €117 million last year. While the Department of Finance itself says 85% of investors are foreign, which means a rental income of approximately €100,000, the dividend withholding tax is just over €8 million. They have an effective tax rate of 8% and that is just on the rental income. If one looks at the increase in valuations and the fact that they do not pay capital gains tax, their effective tax rate is 3%.

It is bad enough that they are paying very little tax on a multi-million euro enterprise, but they are now, because of this beneficial tax rate, crowding out and outbidding our first-time buyers. We cannot allow a situation to persist whereby our tax code assists these REITs to inflate house prices beyond what is reasonable by buying up 42% of the market in Dublin. We need to take steps. We will deal with this in detail in the Finance Bill but we only have a window on that. We need to take steps to start to rein in the REITs. When they were introduced, we said we would monitor them very closely. Time has passed and one can see all the figures in terms of non-household buyers. They jumped significantly as soon as we introduced the legislation for REITs. It has failed in terms of what is happening in the housing market. I ask the Minister to consider measures to appropriately tax REITs and create a level playing field for those first-time buyers and former owner-occupiers who cannot compete with these entities.

Deputy Paschal Donohoe: I want to have a housing market in which first-time and any other individual buyers have a chance to buy a home at an affordable level, but there is another side to the coin. REITs allowed us, in particular at a time of great economic difficulty, to get to a point where we had professionalised our rental sector to a greater extent. That means rental accommodation being provided in our country that is different from where we have been historically, which has tended to be one individual with one or two rental properties, the aggregate of which was equal to the Irish rental sector. That is precisely one of the reasons we got into such difficulty in the rental market. We had so many people providing rental accommodation who were not able to cope with the pressures the economy was under then. There is a role for

institutional companies to provide rental accommodation within our country. If the Deputy has concerns regarding the quantity of them or the work they do, I will be happy to hear his views in the context of the Finance Bill. However, they play and have played an important role in providing rental accommodation in Ireland.

Deputy Michael McGrath: I have not seen the report on the taxation of rental income. I recognise that REITs have played a role, but the difference between the tax treatment of an individual Irish landlord or an Irish company involved in renting out properties compared to the tax treatment of institutional landlords, namely REITs, is very stark. It is an issue which needs to be examined and I will be interested to see what the report the Minister has says, if indeed it addresses the issue.

Deputy Pearse Doherty: On the taxation report, this comes from extrapolations we have done from their published accounts and looking at the CSO data. This will be a major issue on the Finance Bill and it will take up a great deal of debate time. It is a burning issue at this point in time. If this was an Irish company, it would be paying 12.5% corporation tax and income tax. We have a very lucrative situation for REITs and, whatever the reason in 2013 to kick start the property market, it needs to be looked at as a matter of urgency. We have first-time buyers amounting to 25% of the market in Dublin while REITs are 42%. We have a very serious problem.

Chairman: I appreciate the contributions of the members. I thank the Minister for attending, giving his time and being so patient with all of the questions which he answered so comprehensively. I also thank him for attending on 20 July. I thank his officials, Mr. Joe Cullen, Mr. John McCarthy, Mr. John Kinnane, Mr. William Beausang and Mr. Rónán Hession, for attending and for their responses to the requests that came in subsequent to the meeting of 20 July.

As there is no further business, the committee will adjourn until tomorrow at 2 p.m., when we will meet in private session.

The select committee adjourned at 5.15 p.m. until 2 p.m. on Thursday, 28 September 2017.