DÁIL ÉIREANN

AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Déardaoin, 27 Bealtaine 2021

Thursday, 27 May 2021

Tháinig an Roghchoiste le chéile ag 9.30 a.m.

The Select Committee met at 9.30 a.m.

Comhaltaí a bhí i láthair/Members present:

Teachtaí Dála/Deputies	
Seán Canney,	
Pearse Doherty,	
Bernard J. Durkan,	
Mairéad Farrell,	
Michael Healy-Rae,	
John Lahart,	
Aindrias Moynihan,	
Ged Nash,	
Patricia Ryan.	

Teachta/Deputy Neasa Hourigan sa Chathaoir/in the Chair.

Fiscal Assessment Report: Irish Fiscal Advisory Council

Chairman: Today, the committee will engage with the Irish Fiscal Advisory Council, IFAC, regarding the fiscal assessment report.

I welcome our witnesses from the Irish Fiscal Advisory Council: Mr. Sebastian Barnes, chairperson, Dr. Adele Bergin, Mr. Alessandro Giustiniani, Ms Dawn Holland and Professor Michael McMahon, council members, and Dr. Eddie Casey, chief economist and head of secretariat.

Before we begin, I will explain to the witnesses some limitations to parliamentary privilege and the practice of the Houses as regards references they may make to other persons in their evidence. The evidence of witnesses who are physically present or who give evidence from within the parliamentary precincts is protected pursuant to both the Constitution and statute by absolute privilege. However, witnesses are giving evidence remotely, from a place outside of the parliamentary precincts. As such, they may not benefit from the same level of immunity from legal proceedings as a witness who is physically present does. Witnesses are again reminded of the long-standing parliamentary practice that 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, or otherwise engage in speech that might be regarded as damaging to the good name of the person or entity. Therefore, if witnesses' statements are potentially defamatory in relation to an identifiable person or entity, they will be directed to discontinue their remarks. It is imperative that they comply with any such direction.

Members are again reminded of the long-standing parliamentary practice to the effect that members 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, her or it identifiable. I remind members of the constitutional requirements that members must be physically present within the confines of the place which Parliament has chosen to sit, namely, either Leinster House or the Convention Centre Dublin, in order to participate in these public meetings. I will not permit a member to participate where they are not adhering to this constitutional requirement. Therefore, any member who attempts to participate from outside the precincts will be asked to leave the meeting.

I call on Mr. Barnes for his opening statement.

Mr. Sebastian Barnes: The council wishes to thank the Chair and members for inviting us today. Joining me remotely are council members Ms Dawn Holland, Professor Michael McMahon, Dr. Adele Bergin and Mr. Alessandro Giustiniani, as well as our chief economist and head of secretariat, Dr. Eddie Casey. We value our engagements with the Oireachtas and as we see these opportunities as an important part of our work, we are happy to be here.

The council is an independent body established under the Fiscal Responsibility Act 2012. Its mandate is to endorse and assess the official macroeconomic forecasts, assess the budgetary projections, assess compliance with the fiscal rules and assess the fiscal stance. Its focus is on the overall fiscal position, rather than on individual tax measures or spending items.

The council's fiscal assessment report, published yesterday, assesses the Government's stability programme update, SPU, for 2021, which was published in April. It assesses the official projections to 2025 and the Government's wider strategy.

The economy is set to bounce back as Covid-19 restrictions ease and as vaccines are rolled out. The economy has proven more resilient to repeated waves of Covid-19 restrictions than we had thought. While the Government's official projections assume permanent losses, or scarring, of about 5% due to the pandemic, these forecasts seem to us to be relatively cautious. The council sees more upside to potential growth. The unwinding of savings could boost consumer spending and much of the rebound could be largely domestic in nature, such as supporting the services sector. However, there are still risks. Virus mutations could lead to further lockdowns or restrictions in the future, international tax reforms could reduce foreign direct investment, FDI, into Ireland, and Brexit‘s impacts could be worse than assumed.

Turning to the fiscal side, both Covid-19 spending and sharp increases in core spending mean a large deficit is likely again this year. The Government expects a deficit of €18 billion or 8.4% of GNI*. The €5.4 billion of buffers set aside for 2021 look like they will be mostly used up for the extension of the support schemes, both spending we have seen so far this year and spending that would be required if those schemes were extended beyond June. However, the deficit should narrow as temporary measures end and as the economy recovers. The stability programme update projects the deficit to be about €12 billion in 2022 and to narrow to less than 0.3% of GNI* by 2025.

While it is welcome that the Government has provided new medium-term forecasts, the medium-term budget projections are poorly founded. The spending projections for later years assume current spending grows by 3.5% every year. The council's estimates of stand-still costs imply current spending being about €1.2 billion higher than that by 2025. These stand-still costs assume our estimates of the cost of maintaining existing policies while fully allowing for price and demographic pressures. Capital spending projections in the SPU are also well above the numbers in the capital plan. Moreover, the SPU has income tax receipts forecast to grow unrealistically fast given Government plans to index tax credits and bands.

Adjusting the SPU forecasts, the council estimates the deficit would be around €2 billion higher in 2025 at around 1.2% of GNI*, also taking into account a bigger loss in corporation tax receipts. The deficit, however, could still close if growth is better than expected. The SPU projections are on a technical basis and do not reflect the cost of implementing policy changes set out in the programme for Government. There is little or no detail on the cost of major initiatives, including the substantial Sláintecare reforms to healthcare.

The Government has become ever more reliant on corporation tax receipts. Corporation tax receipts account for one in five euro of tax collected last year. Some 56% of corporation tax receipts last year were accounted for by just ten corporate groups. Major changes to the global tax environment threaten the sustainability of this tax base. The Government assumes global reforms will reduce corporation tax receipts gradually by €2 billion, but the impact could be far greater. A scenario considered in this report shows how just five firms exiting Ireland could see €3 billion of yearly corporation tax receipts lost.

The council assesses that large temporary supports to the economy have been appropriate. Unlike in the past, Ireland was able to boost spending and other supports during the downturn. This approach may have halved the contraction in the domestic economy in 2020. These measures are likely to be extended after June and may need to be extended on a more targeted basis into 2022.

The pandemic will leave Ireland with a high debt ratio, expected to still be above 100% of GNI* in 2025. The State has large resources on hand and interest rates are low, but higher debt levels mean a riskier debt path. The council estimates there is a 15% to 20% risk that Ireland's debt ratio could be on an unsustainable path by 2025. This is not alarming, but it underlines the importance of returning to safer debt levels. Doing so would help to ensure future governments can respond to future crises in the same way the Government has done for Covid-19.

Closing the deficit by 2025 would help put debt on a downward path to safer levels. If the economy recovers as expected, this would mean modest or perhaps even no adjustment would be needed from 2023. However, this leaves no room for any new policy measures unless taxes are raised or spending falls elsewhere. If the Government does not raise taxes or reduce spending to fund new policies in the coming years, the projections suggest the deficit will not be closed and debt would remain uncomfortably higher. Budget 2021 included permanent increases in spending of at least €5.4 billion without setting out the long-term funding. This means much of the fiscal space that growth in the economy would have provided by 2025 has already been used up and committed.

Ireland faces significant medium-term fiscal challenges. These include reducing reliance on corporation tax, potentially costly adjustments to meet Ireland's climate change targets and a rapidly ageing population. In addition, implementing the policies outlined in the programme for Government would lead to higher spending. This means a credible strategy is needed. The Government has failed to publish a credible medium-term strategy as it had promised with the SPU. The need to set out such a strategy is both essential and long overdue. The absence of realistic plans and any fiscal targets leaves the public finances without an anchor. It means overspending in the coming years is more likely to lead to larger than planned deficits or further use of corporation tax receipts to mask the overspending. The council has long called for reforms to how Ireland's budgets are set. Three initiatives would help better anchor future budgets - credible debt targets, saving unexpected corporation tax receipts in a rainy day fund, and setting spending limits based on realistic forecasts. We look forward to answering the committee's questions.

Chairman: I will open the floor to members and our first speaker is Deputy Durkan.

Deputy Bernard J. Durkan: I welcome our guests and thank them for coming before the committee. That is about the end of my jumping for joy because the council's report is sobering. I am concerned about two issues. We are aware of the potential diminution of receipts from corporate profits tax. It is difficult to identify in the midst, heat and wake of Covid that we can at same time take the corrective measures Mr. Barnes has hinted at. To what extent has the council evaluated the impact on the economy in general and on taxpayers throughout the country of taking at an early date the corrective measures Mr. Barnes has hinted at? What will that do to us as a people?

Mr. Sebastian Barnes: The first thing to say is there is still much uncertainty about what will happen with corporation tax. There is both uncertainty on the policy side in terms of what will happen in the US Congress and about what the EU may do. There are ongoing discussions at the G20-OECD process and we do not know what will happen. It may be some details are very important, particularly because so much of the tax comes from a very small number of companies. Very specific things about their tax strategies may have a very big impact on the Irish economy. It is clear the risks that corporation tax will fall substantially are there and they need to be addressed. Dr. Eddie Casey might give the Deputy more detail on the analysis in the report on possible impacts. It is uncertain but it is a very likely risk and something that needs to be addressed.

On the policy side, first, we expect the economy to bounce back fairly quickly. All being well with the effectiveness of vaccination, we should be in a position where the economy is much stronger quite soon. That means we can look ahead a little bit. The public finances have become over-reliant on corporation tax. It is important to do that adjustment in a smooth way and that is what we are arguing for. The Department of Finance has put in a smooth adjustment of €500 million a year. We are saying that if corporation tax turns out to be higher than that path, particularly in the initial years - it may take a few years for these reforms to come in - that money should be saved. That partly means we will have savings on hand but it also means we will be gradually reducing the extent to which corporation tax is built into the base of the public finances. We will be reducing the extent to which we are relying on that to finance health, education and those kinds of things. We think that it is very important.

Although the Department of Finance has put in a smooth adjustment, the adjustment is probably more likely to happen in a relatively sudden way. For a few years, while discussions are ongoing, nothing may happen, and then, over the course of a year or two, we could have a big step down, which would be very disruptive. It is about gradually moving away from this. If we had the choice and could keep this money, we would, but we do not have that and we do not know at what time it will go. Therefore, we need to manage that smoothly. Dr. Casey might add a comment on the economic analysis.

Deputy Bernard J. Durkan: May I ask another question before that? Does Mr. Barnes believe a sudden retraction might have the effect of snuffing out the recovery and the acceleration the economy needs and is likely to take at this time? We might not have a recovery or it might be a very deflated recovery over a period of years if we take too draconian a measure to slow down taxation from the corporation tax side and a number of other issues. In the context of the Covid pandemic during the past 14 months, does Mr. Barnes accept it has been virtually impossible to plan anything because it has been impossible to identify precisely the full extent of the ravages of Covid?

Mr. Sebastian Barnes: I will come back to the Deputy’s second question. On the question of the impact, a big and sudden adjustment would obviously be very disruptive. That is a relatively unlikely scenario to happen in that way, but this is one of the major pressures in the context of the public finances. It is, however, more of an issue that can be handled gradually, if it is well managed. That is why it is important that this issue should be managed in a gradual way and that is why we are advocating for a gradual unwinding of the reliance on corporation tax. I ask Dr. Casey to fill in some details on the economic side.

Dr. Eddie Casey: We looked at the potential economic impact based on how many people tend to be employed in the top ten corporate groups which account for most of the corporation tax paid. The economic impacts would not be that big. We are looking at a scenario where the impact of the hit to growth would be approximately 1%. That reflects the fact that while genuine and real activities are being undertaken by these companies on the ground, they tend to not have a massive employment outlay. Even when we try to take account of supporting sectors that benefit from the multinationals being present in Ireland, we still do not see a major impact in respect of employment. Most of the impact comes purely from the hit to corporate tax. In that context, we would be looking at five of the large companies leaving Ireland, meaning that we could lose corporation tax receipts of €3 billion annually.

On the policy front, we are not saying that we must adjust things immediately in this regard. We are stating that the plans are poorly founded. This was something we saw prior to Covid-19. It is not just the pandemic which is leading to bad planning over the medium term. We are stating that we must think about what the plan is for corporate tax in the long run. If we get more corporate tax in the future, beyond what is predicted by the Department of Finance, then we should have a plan for how to set those funds aside rather than allowing the over-reliance on such receipts to build even further.

Mr. Sebastian Barnes: Returning to the planning question regarding Covid-19, we accept that it has obviously been a complicated year and the Government had many things on its plate that were challenging and had to be dealt with urgently. On the other hand, many of the Covid-19 measures have been fairly temporary and there has been strong evidence in the public finances that the economy will bounce back. This is sort of a temporary situation. The economy will come back and then we will be in a situation that will not be that different from the one we would have been in before Covid-19 struck. While there is much uncertainty in that regard, there are many things we do know about, such as, for example, that the population is aging and climate change needs to be addressed anyway.

Equally regarding long-term planning, one of our concerns is that despite the impact of Covid-19 the Government has been moving ahead on different things. In the budget, it committed at least €4.5 billion in permanent spending that was not related to Covid-19. That is a huge increase. We have also seen a great deal of activity regarding the Climate Action and Low Carbon Development (Amendment) Bill 2021 and progress is being made in the implementation of Sláintecare. Therefore, the Government is undertaking many initiatives and it is good that life goes on while Covid-19 is with us. Those initiatives are advancing. Our great concern is that the one piece missing from those pictures is how these initiatives are going to be paid for and how much they are going to cost. It would be possible to state that things have been too complicated this year and the Government has not been able to plan anything and has just been focused on Covid-19. However, that has not been the case. Progress has been made on different things by the Government, but it has just not been able to address how those initiatives are going to be funded.

Deputy Bernard J. Durkan: Would Mr. Barnes agree that the economy's ability to expand and recover presents the best possible option in the context of delivery in the short to medium term? I refer to prolonging the time required for the recovery of the economy by stunting its growth now. I venture that it is most essential for the economy to recover quickly, get up to full speed and into the business of delivery. If we stunt the growth of the economy at this stage, it might not deliver and we might create an artificial downturn for many reasons that Mr. Barnes will know far better than I do. I put that suggestion forward. My other point for Mr. Barnes to consider is that I contend the Government has managed to deliver in respect of the economy in the best way possible, given the convoluted and exceptionally negative circumstances it found itself in during the past 14 months.

Mr. Sebastian Barnes: I certainly agree that economic recovery is key, a good thing and welcome. The Government has played its part in that, partially through the massive support measures put in place in respect of dealing with Covid-19 in the form of payments and supports to businesses. Equally, the Government has also contributed by increasing other forms of spending, and particularly capital spending. Therefore, the Government is contributing a great deal to recovery and we welcome that. Looking at the medium term, though, as we set out in our report, the resources from the growth we expect in that period have largely been committed to existing spending programmes or will be needed to meet requirements stemming from things such as population aging. Growth in itself is not going to generate a huge amount of resources to finance new things. We basically think it is not going to provide any space for that at all because that space has already been committed. Over the medium term, therefore, from 2023, we do not see a major need for fiscal adjustment. There need to be a little bit, but nothing on the scale of what has been-----

Deputy Bernard J. Durkan: Is IFAC not forgetting the potential positive impact of an economic recovery in the short term, as opposed to Government supports for the economy? Everybody agrees that those supports are desirable, good and effective for the time being. They would not compare in any way, though, with the economic performance that past experience has shown that we can achieve.

Mr. Sebastian Barnes: I ask Professor McMahon to address this aspect.

Professor Michael McMahon: Regarding relative optimism about the recovery, our forecasts have factored in a stronger recovery than those of the Department of Finance. In that sense, we are agreeing with the Deputy that there is a great deal of scope for recovery. Once we have built that aspect into the scenario, though, the concern remains that the lack of medium-term planning and the lack of clarity on how policy will fund some of these pre-committed measures can themselves be damaging. Policy uncertainty is being created. Businesses and households expect that there could be tax rises, but without having clarity about where and how those rises will come. In preparing for those potential tax rises, therefore, businesses and households may take actions which in themselves will stunt the recovery.

We absolutely support the Deputy's statement that growth is a fantastic way to bring debt down and ensure that fiscal policy is in a sustainable place. As I said, we are more optimistic in many regards concerning the medium-term prospects for recovery from the disruption caused by Covid-19, and we are not looking back at what happened in the past year. We are looking forward, and in that regard the key point is that we are concerned that it is exactly the lack of credible medium-term planning that will act as a bit of an anchor on the recovery. We have been warning about this aspect for several years and it is exactly this policy uncertainty that we would like to see eradicated.

Nobody knows precisely what will happen in the future. If the experience of Covid-19 has taught us anything, however, it is that entering a period of unexpected crisis in a healthy and credible fiscal position enables the Government to provide supports such as those it has wonderfully been able to provide in the last year. We must, therefore, separate the Covid-19 concerns - and, yes, it is and has been an uncertain time - from the very important aspect of policy certainty and credible fiscal frameworks. We worry more about those aspects being the cause of stunted economic growth.

Deputy Aindrias Moynihan: I thank the witnesses for the report and the overview. I would like to tease out a couple of matters. As we put Covid-19 behind us and look forward to greater activity and a bounceback, I highlight the fact that we witnessed a rapid rally in some areas when restrictions were eased late last year. Is it expected that there will now be a similar rate of bounceback and economic growth? I ask that because many sectors will have found it very difficult in the last year. While they might have been able to come back fast the last time restrictions were eased, businesses in those areas will have now eaten into their reserves and they will be expecting to struggle this time. What kind of bounceback is expected this time? Are the witnesses able to put some kind of figure on it?

Continuing supports are needed in other areas, especially hospitality and entertainment. These sectors have taken a pounding and may struggle much more to get back up on their feet.

When the Irish Fiscal Advisory Council refers to maintaining these supports, does it mean providing the same kind of support on the same scale? What reduction does it envisage and what would be the focus of that? Mr. Barnes said he expects supports to extend into 2022. Would supports be at the same level?

Not every sector took a hammering during Covid. Some did well and personal savings are growing. This raises different questions. There is greater inequality between people who have been under pressure and those who have not. Where will those savings go? Has IFAC assessed such issues? Is it expecting savings to be spent in Ireland or will they flow out of the country when people get a chance to travel and take holidays? Has IFAC assessed how this might develop?

Mr. Sebastian Barnes: Those are excellent questions and we deal with them in the report. Broadly speaking, we expect a strong bounceback as restrictions ease. This is partly because it is what we have seen in the past. The vaccine is a game changer. During the previous reopening when many people could have gone out, they might have felt an element of fear and decided to be a bit more cautious. In this case, even with the vaccine, people should obviously still have a degree of caution but they may feel more confident than they did before. We expect a strong bounceback. We can see it in the spending on credit cards, for example, which has been very strong in recent weeks.

Another reason for that strength is the savings. Household income, surprisingly, barely fell last year, partly as a result of the support schemes and partly because some sectors of the economy did quite well and wages increased by quite a bit in the year. We know that almost one quarter of that was saved, which is a record amount of saving. One of the big reasons was that people simply could not go out and spend. We expect that to be a driver of the bounceback and it may be one of the reasons the recovery is stronger than the Department of Finance predicts. There is a box on this in the report.

While there are different estimates, it appears that there are between €12 billion and €15 billion of excess savings, that is, savings over and above what can be explained. The Department of Finance assumes that only €2.5 billion of that, or an amount of that order, will be spent, which is a very small part of it. We believe it is quite likely that while people will not spend the whole amount - they will use some of it for debt reductions or keep it in their savings - it is likely that they will spend more than that the Department estimates. This will lead to a very strong amount of demand. We have looked at this closely in the box analysis, which suggests that many of the items on which people will spend, in particular services, have a very high Irish content and that people will not particularly buy and spend it on imports. This will increase the economic impact and benefits.

As the Deputy said, one question is whether people will go abroad this summer and spend their money there. In a world where people can go abroad this probably means that other people can come to Ireland. Hopefully, there will be some sort of offset in that regard.

These are uncertainties. It is very hard to predict because we have never been in this position before. We believe, however, that there are strong reasons to believe that consumption will come back pretty strongly for the reasons the Deputy outlined.

As the Deputy also noted, the picture is generally positive. There are risks. Something could go wrong and some businesses may continue to suffer. For example, if people do not go back to the office in a big way, businesses that cater to office workers may face a permanent challenge. As the Deputy said, balance sheets have taken a hit over the past year. Hopefully, good profitability in the next few months, combined with Government support, will mean the damage is fairly limited. However, we do not really know where businesses stand.

Deputy Aindrias Moynihan: Does IFAC expect a bounceback of a similar scale to the one late last year or on a reduced scale because many businesses such as sandwich bars are burnt out, as it were?

Mr. Sebastian Barnes: We are expecting a pretty strong bounceback. Clearly, some businesses will be under pressure but, on the other hand, the large amount of cash that people have been sitting on for a long time will allow them to spend more. Perhaps Dr. Casey will comment on the size of the bounceback.

Dr. Eddie Casey: The Deputy asked a good question in relating this to what we saw last time. When we looked at this in our projections we assumed it would be stronger again because the savings are unwinding, there is less uncertainty and there is the sense that we are out of the crisis. When things start to reopen they will open up on a more sustained basis. Those kinds of factors lead us to believe the very strong recovery and consumption we saw in previous reopenings of the economy will potentially be even stronger again. In some ways, we are at that point already. Credit card data, ATM withdrawals and retail sales data from the CSO all indicate that there is already a recovery in consumer spending, even with the lockdown still in effect to a large degree. This gives us some confidence that there will be a strong recovery.

To put one estimate on it, which Mr. Barnes alluded to, if the recovery is highly domestic and we spend a large part of the money that has accumulated over the past year on domestic services, it could potentially lead to much higher growth. One estimate we made in the report looks at the Department's projections, which assume a very high rate of imports for everything being spent. If we change that forecast so that it is more in line with historical imports for everything we spend, growth will be potentially 6% higher. These are drastic differences potentially. While there is major uncertainty, this adds to our more optimistic picture of where the recovery will lead.

Deputy Aindrias Moynihan: To return to my questions on the supports, some sectors will face much more difficulty than others. The hospitality and entertainment areas, for example, are in a totally different landscape from where they were before. A scaling off of the supports for those sectors is mentioned, with some supports continuing to 2022. Should a similar level of support continue or should support taper and, if so, by how much? How does IFAC see supports changing for sectors that are under pressure?

Mr. Sebastian Barnes: The important message from us is that the money is available, partly through the contingencies and, more broadly, in the context of public finances. The money is available to provide the supports that could be needed to make sure there is not lasting damage to the economy. Exactly how one designs those supports is a difficult question. It is one on which the Government, with its much closer contact to the business community, is in a much better place to take a view than IFAC is.

The current supports end in June and many people still receive them. It is obvious that some form of extension will be needed. With the economy recovering significantly according to our 2022 projections, it is less obvious to us that large-scale support for everyone in a fairly open way would be justified. It would probably need to be much more targeted. Perhaps a little more care is needed to ensure companies' business models really have been disrupted and they are not just being kept alive with public support and also that there are proper business transition plans in place. It is not the fiscal council's expertise to know how to design these schemes. The Government probably does not need to make a commitment now on what it will do in 2022. It must wait and see how this unwinds.

Deputy Aindrias Moynihan: I raised also the issue of inequality, whereby some groups have done well and many others have found Covid highly challenging and a gap has opened up. What is IFAC's view on that? Has it given the matter consideration?

Mr. Sebastian Barnes: IFAC, like everyone else, is concerned when it sees those things. It is not within our mandate to have a view as to how they should be resolved. That is a question for the politicians.

Deputy Pearse Doherty: The Irish Fiscal Advisory Council definitely did not pull its punches in its recent assessment of the Government's projections and stability programme update. The report includes a reference to projections being "poorly founded", and uses language such as "piecemeal", "not realistic", "not credible" and "not ... useful". In fairness to the Minister, he did not pull his punches either, rebuking the assessment and defending the Government's approach. What is the next step for IFAC? The Minister, in his commentary yesterday, did not appear to take the criticisms on board.

Mr. Sebastian Barnes: As always, we expect and hope that the Government will provide a response to our report in which it sets out its response more clearly. In the comments that we have seen in the past 24 hours there is nothing that would cause us to review anything that we wrote in our report. We stand by our report. Our assessment is correct and well founded.

Some of these issues are long-standing, both in terms of the way the forecasts are done and whether they provide a realistic and useful benchmark or guidance for parliamentarians. The long-standing political questions of the overall fiscal strategy for the medium-term is a very urgent and important one for the country. That is why we say it needs to be answered. It is very important for many reasons, including fiscal sustainability. We absolutely stand by what we said.

It is very important because the lack of a clear plan and projections really does leave the public finances in a somewhat vulnerable position. Making big commitments without adequate funding is a classic risk for the public finances and really does need to be addressed. This is an issue that we will keep looking at and assessing.

This is also a question for other people, including parliamentarians. If they accept our analysis and feel they are not getting the guidance they need from the official projections, parliamentarians, including the Deputy, should make those points to the Government as well.

Deputy Pearse Doherty: I note Mr. Barnes has said this issue needs to be addressed. This is not the first time IFAC has called out this issue. It called it out last year and the year before but nothing has changed. Many members of this committee and the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach have called also out the unrealistic projections. The SPU is a wee bit meaningless, to be honest. It is just ticking a box and does not provide a proper assessment.

On the Government's medium-term forecasts, the IFAC report states:

> They show income tax receipts growing unrealistically fast relative to incomes. This

> is not consistent with the *Programme for Government* plans to index the tax system, which would reduce growth in income tax receipts.

I ask Mr. Barnes to expand on the cost of indexation per year as committed to in the programme for Government. How does it deviate from the SPU projections? How did IFAC make the strong assessment that income tax forecasts are not credible?

Mr. Sebastian Barnes: Broadly speaking, one would expect income tax to rise roughly at the same rate as wages if there is no policy change and the tax system is indexed. Instead, what we see is a very fast growth in income tax receipts relative to pay. That is basically where our concern comes from. One way to reconcile that would be if the Government chose not to index the tax system. That means as income grows, extra money is brought in if average taxes increase. That is what was done in the past couple of years. The programme for Government stated the Government would not do that if wages were growing in the years ahead. Therefore, the Department of Finance is implicitly assuming that is what will happen. We have tried to clarify that with the Department but it is not very clear what it has done. At face value, assuming the Department's forecasts for income and also assuming the programme for Government indexation goes ahead, these forecasts are incoherent. Mr. Casey will provide the exact numbers showing how much difference indexation makes each year.

Dr. Eddie Casey: Cumulatively, by 2025, we assume the impact will be €1.5 billion in terms of potential lost income tax receipts. The year-to-year figure varies. Generally, the estimate that we use, which comes from Revenue, is that for every 1% wage increase for which non-indexation is provided, the impact amounts to approximately €150 million.

There are big questions about how far they go with indexation as well. Is it just income tax or is it universal social charge, USC, or other things? We do not know so we took a conservative estimate. The potential impact could, therefore, be higher. It goes back to the view that wages will grow to some degree in the later years and, given that growth, we expect that the impact could be quite high.

Deputy Pearse Doherty: IFAC mentioned the significant risk that exists in terms of corporation tax receipts. Some 56% of all corporation tax receipts come from just ten corporate groups. The SPU predicts that there will be a reduction of €2 billion in corporation tax receipts due to the base erosion and profit shifting, BEPS, process, in particular Pillar I. Mr. Barnes will note that there is real momentum now behind the process, with the Biden Administration rowing in behind it and calling for a minimum tax rate on corporations of not less than 15%. This has been welcomed by France and Germany. As recently as this week, the Minister for Finance doggedly asserted that our corporate tax rate of 12.5% would remain unchanged as a result of this process. Does Mr. Barnes think that is likely? What impact does he foresee if our corporate tax rate were to increase to 15% as a result of this process?

Mr. Sebastian Barnes: That is not something we have looked at explicitly. We base our views on what the stated Government policy is. There are complex questions as well as to how Ireland would respond. Again, as we said earlier, it also depends on what actually comes out of the international processes as well. For these reasons, we do not have a very clear view on that. What we are clear about is that there is a big risk that, in future, Ireland will not be able to raise as much corporation tax as it does under current policy.

Deputy Pearse Doherty: The projections are based on a 12.5% corporation tax rate. Does Mr. Barnes believe that is credible in the medium term given the BEPS process and where that is moving in terms of a minimum effective tax rate?

Mr. Sebastian Barnes: From a forecasting prospective, it is a reasonable way of doing a forecast. Obviously, there are risks around that but it is a starting point. For us, the main concern is the fact that overall revenue, whatever the rate would be, would fall and that is a major problem because it is a big share of the tax take.

Deputy Pearse Doherty: The IFAC report states that "current projections suggest that achieving a balanced budget by 2025 would leave no room to implement new policy measures without increasing taxes or reducing spending in other areas." IFAC has commented elsewhere in its assessment that the programme for Government made spending commitments in core areas such as health and housing, which are required. At the same time, the programme for Government has ruled out tax increases across a majority of tax heads, apart from some smaller areas such as the plastic bag levy, sugar tax and carbon tax. Is the programme for Government compatible with the stability programme update? Is the fact that they are not compatible the reason the SPU lacks credibility, as the IFAC report states?

Mr. Sebastian Barnes: Two issues arise there. One is in terms of compatibility with the rules. At the moment, the rules are in a slightly strange position because the exceptional circumstances clause has been enacted. That clause will be lifted. There is also a lot of discussion around reform at the EU level. What we have done in this report is we have assessed, if the rules do come back in, whether what we see in the SPU would be broadly compliant. In terms of the numbers it is compliant. The question is really about the policies that go behind them.

Looking more broadly at the question around the fiscal position and getting back to budget by 2025, as the Deputy said, this is really where the medium-term strategy is required. Getting back to budget balance seems like a reasonable objective over that period, with the economy growing and also because of the need to get debt down. If we accept that, carrying on with the current policies would perhaps lead to a small deficit or an all-round balance. Maybe a little bit of fiscal adjustment would be needed but it would not be massive. As the Deputy said, the big issue is how other things are funded. That has been complicated. Our estimate is the Government committed not to apply increases to around one third of the tax base. That includes income tax, for example. The areas mentioned for revenue increases are quite small, with the exception of PRSI, which is a bigger tax head. However, as the Economic and Social Research Institute, ESRI, showed very nicely last week, a 1% increase in PRSI rates still just raises approximately €600 million. It is not huge when compared with the estimated cost of implementing Sláintecare, which is of the order of €3 billion. These are the pressures.

On the spending side, the Government has also committed not to cut spending on around half of the overall spend. These big pressures are why the Government will have to decide how it will reconcile those things. Will it increase taxes, try to cut spending in other areas or not go ahead with some of the priorities it has talked about? The Government really needs prioritisation. It is difficult because health, housing and climate are all areas where there is much agreement that things need to improve. How that is delivered will be very difficult given the way the Government has set things up.

Deputy Pearse Doherty: On debt sustainability, does Mr. Barnes accept that the fiscal and monetary environment has changed, with many arguing for debt sustainability to be measured with respect to debt servicing costs rather than the crude measurement of debt to GDP ratios? Does he accept the old model of measuring what the State can or cannot afford to do has changed and this will change the approach of IFAC in future?

Mr. Sebastian Barnes: It is clear that we are in a different environment. Interest rates have never been this low and are still essentially negative for Ireland. Ireland should experience quite high growth so the debt dynamics are essentially very favourable. The Deputy is correct that we are in an environment very different from the ones we have seen in the past. Of course, there are all the challenges we have talked about as well, which are not to be set aside.

The way we look at it, one can have favourite measures for the public finances but they essentially all come back to the same sorts of things. We have looked at the public finances in terms of debt sustainability. While the debt dynamics are very favourable, we have also looked at the risks around that. It is quite possible that interest rates or growth will not stay this favourable forever. That is a big concern for anyone who looks at these things. We have done a careful analysis of this, which Dr. Casey will tell the Deputy a little more about. The bottom line is that, yes, debt dynamics mean this level of debt does not create problems but we need to bring it down to a more sustainable level. Dr. Casey will explain the exercise we did to look at that question explicitly.

Dr. Eddie Casey: It is a great question because it has become more complex as interest rates have fallen. Over the past couple of years, we have advanced our work in this area to develop joint modelling work with staff at the National Treasury Management Agency, NTMA, on how to do these things in a frontier way. We now use stochastic debt sustainability analysis, where we build in a very detailed interest modelling platform. We have insight into all of Ireland's debt securities, what the interest rates are on them and how long they will be fixed. We can then tell when some of the debt will run off, when we have to replace it and how expensive that will be, potentially. We look at a probability path for debt under different types of scenarios. From that, we can say there is a 15% to 20% probability that the debt ratio will remain as it is, at very high levels, or will start to rise in an unsustainable way. This takes on board the factors of having a very low interest rate and a very low debt serving burden right now. Much of that is fixed for a very long time.

Notwithstanding all those positives, there are still risks when debt is at very high levels. While there are risks that it could become unsustainable, those risks, and the uncertainties around them, are magnified when debt is at high levels. We know even less about what will happen in future because we are at a high level. Those are the risks we point to.

Deputy Pearse Doherty: Can I ask finally-----

Chairman: Deputy Doherty is well over time.

Deputy Michael Healy-Rae: I am very thankful for this morning's excellent presentation because it is important. It is an eye-opener for some of us. I am certainly taken aback by some of the facts. They show we have an awful political operation ahead in the recovery to try to get ourselves to a place of financial stability in the future, while trying to do our best for the people who elect us and trying to ensure fairness for everybody in the recovery that is required. At the same time, we are trying to protect and safeguard overseas investment, which we do not want to jeopardise with regard to tax rates and corporation tax rates. We have to be so careful about how we proceed. I am very grateful to Deputy Doherty for some of his probing questions because they answered some of the questions I wanted to raise. I am grateful for the responses he received. I am thankful for the presentation. It was very informative. It is very important for us as public representatives to have heard what we did this morning.

Deputy Ged Nash: Some of the questions I originally intended to ask have already been answered to my satisfaction. Unfortunately, I have to leave at 10.30 a.m. to attend another meeting so I will be brief. I have two observations and two related questions.

There is no doubt that the witnesses gave the Department of Finance some kicking on the stability programme update and did not pull any punches. Is the SPU credible at all and is it of any use this year? Is there a likelihood of the European Commission correcting Ireland's homework and sending it back to the Department for another assessment or, at least, review?

My second point is on our over-reliance on corporation tax from a very limited number of companies and the vulnerability that presents to our Exchequer and spending plans. It seems to me we are going back to the 2000s. This could end up being a similar situation to what we experienced in the 2000s in terms of an over-reliance on residential stamp duty related to people selling ever more expensive houses to one another. There is a clear vulnerability there.

The point was made, in the context of the programme for Government, that the Government has essentially tied its own hands when it made a political commitment not to increase income taxes over its lifetime. In that context, it restricts any revenue-raising measures the Government might be considering to measures confined to taxes that could be raised on about 14% of the existing tax base. That is a very risky situation to be in given the commitments made in the programme for Government and the deficits the pandemic exposed in our public services and other aspects of public policy. One way of addressing that gap and generating additional revenue is to look very seriously at the prospect of the introduction, for example, of a well-designed net wealth tax. Is there any merit in that?

Mr. Sebastian Barnes: The Deputy asked three questions about credibility, the impact of corporation tax and a wealth tax. I will leave the second question to Dr. King and we will come to it last. On credibility and the SPU forecast, it is welcome the Department has returned to doing medium-term forecasts that are four years ahead. Although, ideally, they should be five years ahead, it is the first time in more than a year the Department has done that and it is very helpful. It is helpful to everyone, including us, to be able to understand what it is doing.

However, as the Deputy said, we have concerns the forecasts are poorly founded. On the economic side, we endorse these forecasts. Our view is a little more optimistic but these are reasonable macroeconomic forecasts and we have endorsed them. It is not a problem on that level. The issue is much more on the public finance side. There are two problems. One is that even conditional on the existing policies on which the forecasts have been done they are not well-founded, as we have discussed. There are a number of issues. Among those, we have a concern about incoherences between the Department of Finance and the Department of Public Expenditure and Reform and a lack of costings, particularly on the spending side, which is more in the Department of Public Expenditure and Reform's remit than that of the Department of Finance. The political questions also need to be resolved, but those are matters for the Government, not officials.

Overall, the budgetary forecast is not credible. We have produced an adjusted version because the adjusted numbers are probably the ones that people can use. They are useful on two bases. First, they are more realistic and seem to be more correct. Second, they provide better guidance because they are built up in the right way, allowing someone to understand what the various moving parts are and to come up with a different set of numbers if he or she takes a different view. It is difficult to do that with the Department of Finance's numbers in the stability programme update because many aspects of those are unsatisfactory.

It is for the European Commission to decide, but there is not really a process through which it can revert with criticisms. Importantly, we have an endorsement role on the macroeconomic side, in that we endorse macroeconomic forecasts before they are sent to the EU. The EU requires them to be endorsed. If we do not, the EU would have no forecasts from Ireland to examine. The situation on the budget side is different, in that there is no endorsement function. Although we are providing an assessment, it is not in any way binding and does not affect the way the European Commission will consider the matter. It is important to understand this difference on the institutional side.

The council's mandate is not to examine specific tax or policy measures. As such, we do not have a view on a wealth tax. As we have discussed at previous hearings, there are many forms of wealth tax and they may have different implications. More generally, we welcome the creation of the Commission on Taxation and Welfare. Taking a rigorous look at these issues is a good idea and could contribute to developing a good strategy. It is important that, when bodies like that or the Pensions Commission report, it leads to change and is not just an exercise in kicking matters into the long grass.

I will ask Dr. Bergin to contribute on the impacts of corporation tax.

Dr. Adele Bergin: Will the Deputy repeat his question on corporation tax, please? I did not hear it properly.

Deputy Ged Nash: It was not necessarily a question, but more of an observation on our over-reliance on gathering so much tax from so few companies, which poses a risk. How can we replace that and could the design and imposition of a net wealth tax help to address the imbalance and fill the gap?

Dr. Adele Bergin: I thank the Deputy for his question. I understand him now. A detailed analysis in the report goes through the over-reliance on corporation tax and how it poses a risk to funding our spending, given that it is volatile and highly concentrated. There is a risk of a sudden reversal. We have argued that, if there are excess corporation tax receipts, they should be kept aside and not used to fund current spending, thereby reducing the reliance over time. The Deputy is right in the sense that a sudden reversal in corporation tax receipts means that other taxes will have to increase or spending may have to decrease.

Mr. Barnes answered the Deputy's question on a wealth tax. We make an assessment of what would have to be done overall without prescribing taxes.

Deputy John Lahart: This is probably the first meeting where the rubber has started to hit the road since this committee was formed. I welcome IFAC. Having served on the previous Committee on Budgetary Oversight, placed a great deal of stock in IFAC's reports and made the point continuously that this kind of advice was absent at the time of the crash, it is worth repeating that, broadly speaking, the only advice against a soft landing that was coming to the Government at the time was from a fairly obscure economist from UCD. Now, there is a plethora of advices. For the past five years, IFAC has been warning about corporation tax. It is warning about the over-reliance on that tax again. The previous Government only moved on that advice in its final year in the form of the rainy day fund in the budget. Despite the fact that such a fund was included in the 2016 confidence and supply agreement, it was really only introduced and activated in 2019. It has now been exhausted as a result of Covid.

For me, a reasonable summary from a lay man's point of view is this: Covid has cost an inordinate amount of money, but in spending that money, the Government has fulfilled the unwritten but expected social contract between the State and its citizens by bolstering them and providing a safety net when they needed it. We expect a big bounce, although there is a question mark over how big it will be. IFAC continues to warn about the sustainability of the corporation tax figures and, for the umpteenth year, has warned about the over-reliance on a number of companies. Our debt is significant and will have to be serviced. The Government's plan is to have no income tax increases. Proceeds from the bounce, be it large or modest, will be exhausted by Sláintecare and housing, meaning that there will not be a great deal of room for manoeuvre unless spending is reined in or there is some creativity in terms of the tax system. Is that a fair summary of the situation?

Mr. Sebastian Barnes: That is a pretty good summary, although there is an important nuance to highlight. As we set out in the report, even with some reduction in corporation tax receipts, we would still get close to or at balance by 2025 if current policies are maintained, which would not be an unreasonable objective. Any adjustment to current policies in this scenario would be modest. The real challenge is in deciding how to pay for elements on top of all that. The Deputy said that there would not be much room for manoeuvre, but I would say there would be no space for these additional elements to be accommodated without there being some offset. If one is planning to improve the quality of public services and spend more money on them, it is not unnatural that taxes would have to rise to balance that. It would not particularly depress the economy, given that money would be being moved from one place to another. It is not an overall consolidation. Rather, it is about ensuring that both sides of the equation are balanced.

Deputy John Lahart: Mr. Barnes spoke about the supports possibly being more focused, but he is probably not going to comment on their tapering off because that is Government policy. Has he anything further to say on the matter?

Mr. Sebastian Barnes: On the question of being more focused, as the economy recovers, the general need to put money into the economy will be less. It will instead be about targeting specific sectors. If businesses struggle even after the economy has returned to its normal level, it raises a deeper question about their position. It may be that some sectors will take more time to return, and that is fine, but it raises a question about whether such businesses will be able to survive. It is much too early to tell at this stage, but once the recovery is in full swing, the general need to support should be less. That is as much as I can say.

Deputy John Lahart: Having sat on this committee previously, it is up to it to accept the IFAC report. That is what IFAC was set up to do. Mr. Seamus Coffey often repeated his predecessor's words that IFAC was instituted in part to institutionalise in the system the memory of the crash so that the same mistakes would not be repeated. I say that in a non-partisan way and as a non-political statement. It is how we work out from that. This is advice from the council and I do not think it should be ignored or that we should look for ways out. I go back to the infamous words that revenue buoyancy will rescue us from all of these things, even though the argument is circular in nature. The warning is coming early enough.

A lot of questions were answered and I found this session very useful. The reading material was also very useful. If Ireland had to adopt a 15% corporation tax rate as a minimum, can the witnesses give us some kind of narrative around what they think the impact of that might be? What revenue would it raise? What impact might it have on companies that seek to locate here?

Corporation tax is not the only contribution of such companies to Ireland. When I was on

South Dublin County Council about eight or nine companies were responsible for 75% to 80% of the county's commercial rates base and they all happened to be companies that paid corporation tax. If any of those companies decided to leave for any reason, it would not just hit the corporation tax base but also a whole load of other revenues often seen by the public. What would be the implications of a 15% corporation tax rate?

Mr. Sebastian Barnes: A full analysis of the implications is very difficult because it is so complex. Deputy Lahart mentioned Mr. Seamus Coffey. I am sure he would give him a far more detailed account than I would. The points the Deputy has made are good. In a world where Ireland ended up with a tax rate that is more similar to other countries it would lose some of its advantages. It would not lose all of them. There are many other reasons companies choose to locate in Ireland.

Deputy John Lahart: Are there? Does Mr. Barnes believe that is a concrete analysis?

Mr. Sebastian Barnes: Yes. We do not know the strength of the different forces between the tax rate and the rest because we have only ever observed them together. Being an English-speaking country, the kind of economy Ireland has, the skills of its workforce and being a member of the European Union are all major advantages. As the Deputy said, the tax advantage exists and we do not really know how to separate it from the other things.

There are essentially two effects that would result from any scenario around tax reform, not just the one the Deputy mentioned. One is that some of the tax revenue may shift. Companies may pay tax in the United States or elsewhere, rather than in Ireland. The other is that some activities may shift. That is a different impact. Activity shifting has the kind of impact the Deputy has spoken about, in terms of people's employment, the taxes they pay and the money they spend in shops. There are those two effects.

It is much easier for companies to move money rather than assets and the actual underlying activities. Large companies do move those things. The Deputy is right that there are two channels. As I said, the strength very much depends on the detail of the companies and what is agreed. It is important to keep track of those two channels.

A third channel which is important is that the tax that is paid into Ireland is spent by the Government in various areas. That flows back into the economy as well. There is a net inflow of money into Ireland. Most tax is taken from one person in Ireland and used to finance something else in Ireland. This tax is a net flow from the outside. It is quite significant in that case.

I want to come back to a previous point the Deputy made about the lessons of the crisis. Looking back, one thing which has not changed since the crisis is that the budget cycle in Ireland remains very focused on an annual cycle. For example, it is striking that the Sláintecare implementation plan has all kinds of details about what is planned but the budget numbers only cover 2021. One would assume additional allocations will have to be made for it next year. There is no discussion or costing of that. The most up-to-date information we have for costing Sláintecare comes from 2017, which is a long way away.

The focus on the annual cycle leaves Ireland adrift and at risk of not having a medium-term plan, letting things drift and spending revenue as it comes in. As we saw in recent years, corporation tax could be at a different level in the future. Breaking the annual cycle and moving to a more medium term cycle, as the best countries have done, would be helpful. That is one of the reasons we care so much about medium-term forecasting.

A credible medium-term spending forecast could align all of the Departments' spending plans a few years ahead. There would not be much by way of decisions to be made in the budget because we would have a clear medium-term strategy that would help us to avoid having a cyclical movement of public spending because it would be set on cruise control. We cannot have that at the moment because the medium-term spending forecasts are not well founded and built up to allow us to do that. Spending numbers would have to be revised again whenever we next get the opportunity to do so because they are not well founded.

To come back to the Deputy's point on the lessons from the crisis, it is very important for the committee to move away from the annual cycle. Things will always have to be changed a little bit from year to year because lots of things happen, but moving away from the cycle is important and that is why it is important to have a medium-term strategy. We need the forecast that would allow us to do that.

Deputy John Lahart: If we had three or five-year forecasting, would that allow temporary taxation measures? Could we sell to the public the idea that we have Sláintecare or something else with a medium-term tax need that will be reviewed after a period of time? It is often the case that when a tax is introduced we feel it is permanent. For example, it is hard to move away from a tax such as the USC. Aside from creating certainty, what would be the advantages, to use a cliché, of having an envelope for each Department, etc.?

Mr. Sebastian Barnes: The main advantage is that it would avoid the procyclicality that we have seen in the past. If there is a temporary boom where the economy bounces back very strongly, it would be a mistake to spend or build spending plans around that money. That is the main advantage. There are lots of other advantages to good planning. It also means that Departments, rather than chasing after more money, may, in some areas, think harder about how they can make more of the existing money or will at least know how much they have and can plan around that. There are many advantages to a more medium-term approach.

In terms of temporary tax measures, it is very hard in general for governments to be credible around these kind of temporary measures. There is a much better chance of being able to do that if there is a generally credible framework around public finances. For example, one issue we had is that investment is running at very fast levels. We do not have a very clear sense of the long-term gain. Is it a catch-up period of investment? It will probably go to a higher permanent level of investment, but what will that be? Some of these dynamics could be built into a medium-term plan. We do not really see that at the moment because it is not well articulated.

Deputy Mairéad Farrell: Gabhaim buíochas leis na finnéithe as teacht os comhair an choiste seo. Ar ndóigh, tá sé fíorshuimiúil, mar is gnách. The witnesses correctly noted that Ireland is facing significant medium-term fiscal challenges. Primary among these is the need to reduce our reliance on corporate tax. A number of speakers have clarified that. This is something the committee has discussed a number of times with the Minister for Finance, Deputy Donohoe, and the Minister for Public Expenditure and Reform, Deputy Michael McGrath. We have heard that the Government is assuming that global tax reforms will reduce corporation tax receipts gradually by €2 billion, but Mr. Barnes noted the impact could be faster and greater. We recently received reports from the IMF that it has also raised this as a concern.

I note Mr. Barnes stated that if just five firms were to exit the market, the State could see €3 billion in yearly corporation tax receipts being lost. As I said, I have raised these concerns with the two relevant Ministers. I have also mentioned the need to begin planning for an alternative industrial strategy, given the coming expiration of the current one. IFAC has also raised concerns about spending and the need to reduce the deficit and try to reach a balanced budget.

I agree with the witnesses on the risks to our low corporate tax model. Surely transitioning from our corporate tax-based model to one based on creating a high value-added sector would require greater public investment and State involvement in the economy. The same goes for reaching our climate targets. We need to be prepared for the eventuality of an impact on our corporate tax receipts. If we accept, based on that analysis, that FDI growth might decline as a result of international tax regime changes, then we need to be prepared. The State would need to grow its own. Focusing solely on balancing the budget at a time when corporate tax receipts could be falling might lead to the worst of all worlds. Is there not an argument to be made that we need to invest now and ensure we place our tax base on a more secure, long-term footing? Would it not be a more prudent course of action to invest and ensure we have an alternative strategy, in case we need it?

Mr. Sebastian Barnes: I agree that sustainable growth is probably the main factor in ensuring the sustainability of the public finances. Were the economic model to change in a significant way, it is right that the Government would prepare for that, which may require public investment in all sorts of areas. These are definitely legitimate matters for the Government to think about. From our perspective, the point we are making is that the sustainability of the public finances is important as well, particularly in view of the fact that we have a very high debt rate or level of debt. One of the big risks is that there could be a shortfall in growth and one of the things that could drive that is a big contraction in FDI activities or if FDI activity were to stop all together. That is definitely a concern.

Our point on the spending side is that the issue is prioritisation. There is an amount of spending that is consistent with fiscal sustainability. That amount can be increased if taxation is increased in a way that matches but it is important to maintain the sustainability of the public finances. That may require prioritisation, either between tax cuts and spending or how much one increases taxes and adjusts spending. It may require prioritisation within spending, that is, orientating spending more towards things that will help to support growth, for example. The key message is that fiscal sustainability is very important and if money does need to be spent, whether on measures to help support growth, address climate change or tackle inequality, for example, that needs to be funded in a sustainable way. That is the key point and it requires prioritisation between the different policy objectives.

Deputy Mairéad Farrell: I agree that at this stage we should be planning for an alternative in the event that corporate tax changes have an impact. The council notes in its opening statement that capital spending projections are well above those contained in the capital plan. This ties into what Mr. Barnes has just said in relation to funding in order to ensure that we build and grow. The IMF has said in recent times that Ireland has infrastructural deficits. Those deficits actually put us on the back foot when Covid-19 struck, particularly in the context of our hospitals and schools and we had exceptionally long lockdowns as a result. The capital spending projections are well above the capital plan but there have been reports in the media that the Minister for Public Expenditure and Reform is concerned that Departments may not meet their capital spending targets.

In terms of balanced regional development as we emerge from this crisis, we have huge concerns about unemployment levels and businesses no longer being viable. New sectors will have to be built up and infrastructural deficits addressed. In that context, capital spending will be an important core element and such spending must be done on a regionally balanced basis. Is IFAC aware of any mechanisms used by other member states to ensure that Departments meet their spending targets? That is going to be very important. It is one thing not having funds available to stimulate the economy but it is another thing entirely having such funds available but being unable to spend them, unable to get funds into the hands of contractors to commence capital projects and, most importantly, unable to have that money circulating in the economy.

Mr. Sebastian Barnes: Capital spending is a really key element. Capital spending, which had been very weak following the crisis, is now ramping up and is set to ramp up even further at quite a fast pace to a level that is historically fairly high for Ireland and well above the EU average. There is a lot of capital spending due, much of which is outside the Exchequer area, in areas like housing and the local authorities. There is a lot of investment going on and that is important. It provides a favourable background for the recovery and hopefully will deliver future benefits. Our specific concern is that the Government's projections for capital spending should be in line with its capital plan. For some reason, which we do not fully understand, the Government has projected a much higher number and that number takes investment to a very high level by historical and European standards. We are a little unclear as to what is happening there.

Obviously, capital spending is important for growth and many other things. It is important, therefore, that it is delivered. In past years, there has been a tendency for the capital budget to be underspent. It is important that the targets are met in a sensible way, not just because costs are going up but because volume is being delivered. Obviously, delivering capital projects is a complex business. On the quality of those projects, there are many issues arising which are beyond my expertise. Professor McMahon may have something to add on that.

Professor Michael McMahon: One point worth stressing is that it is not just public investment *per se* that is important but targeted public investment and joined-up thinking across the planning framework. The Deputy asked about other member states but there are many examples to look to, including Singapore which is a world leader in this area. There, public investment is planned on a multi-year basis with clear co-ordination across Departments. For example, roads are built to places where houses will also be built and so on. It is about having a credible plan.

To go back to some of the answers we gave earlier, it is not that investment is good and current spending is bad. It is really about what we spend on. Good spending is good and in that sense, that is where the planning aspect of this is important. As the Deputy alluded to, there could be plans that would increase debt in the near term but which could be seen as very sustainable because they would bring benefits of growth further down the road. That is a really important part of the debt sustainability equation. That would be my main response to the Deputy's question. It is not just about one plan or another but about a joined-up plan and a multi-year plan. It is not tying the hands of the Government but it is giving a focus to all of the Departments, not setting each of them individual targets but getting them all to sing from the same hymn sheet.

Deputy Mairéad Farrell: That is very interesting. I have one more question. IFAC states that if the Government does not raise taxes or reduce spending to fund new policies in the coming years, projections suggest that the deficit will not be closed and debt will remain high. Leaving aside the question of what types of taxes need to be raised, we need to prioritise tackling tax avoidance within existing tax measures. Some weeks ago, the Committee of Public Accounts heard evidence relating to bogus self-employment and the resultant loss of PRSI contributions, up to a potential value of €1 billion per year. Mr. Barnes made reference to increases in PRSI bringing in an additional €600 million. While we could have a conversation about that, I am more interested in the issue of tax avoidance. Even if the Government increased PRSI rates, tackling avoidance would still be important. Would we not be better served by tackling the avoidance under existing tax heads before we start talking about changing bands, introducing new taxes and so forth? I am interested in the council's views on that.

Mr. Sebastian Barnes: Those kinds of mechanisms are important levers and while some are enforcement issues, others are related to the design of the tax system. Something like the tax commission can, hopefully, be very helpful in pointing those out. I do not know how much money is available but it makes sense to look at that. It is important for the sustainability of the tax system that it is seen as fair and efficient, so those are definitely areas to consider.

I sound a note of caution in that Governments often look at reducing waste or improving enforcement as ways of filling gaps in their budgets. Those are areas an organisation such as ours looks at very seriously now. In the past, the way in which estimates of how much additional revenue such an approach would bring in have been accurate. People who look at public finances generally examine these carefully because they can seem like an easy way out for the Government. The Deputy is right, however, that they may well be totally appropriate in the circumstances.

Deputy Patricia Ryan: I thank the Chair and our guests. Many of the questions I was going to ask on income tax and corporation tax have been answered. I am very concerned about the housing crisis and I have raised this issue with the Minister for Housing, Local Government and Heritage, Deputy Darragh O'Brien. I note that IFAC's report draws attention to the large amount of personal savings on deposit. Is there a way those savings could be harnessed to fund the building of public and affordable homes on public land?

Mr. Sebastian Barnes: There have been some proposals around that possibility in Ireland and internationally. As I said, as a council we do not look at the merits of specific issues and, therefore, we do not really have a view on that. Clearly, though, housing is an important issue in Ireland for many reasons. Housing costs are very important, including for Ireland's competitiveness, so it is a matter we look at. I do not have a view on it.

Deputy Patricia Ryan: I have also raised concerns regarding the delivery of Sláintecare and reforms. What is IFAC's view concerning what should be done to prioritise Sláintecare and the vital reforms required in this area?

Mr. Sebastian Barnes: Sláintecare is a major reform. We know health spending increased very sharply in recent years. I think it increased by approximately 30% in the three or four years before the crisis and the onset of the pandemic. Aspects of Sláintecare could help to reduce pressure on healthcare costs. It is an ambitious reform programme. We are not experts in health, so it is hard for us to make a detailed analysis. However, we are concerned that this major reform is being undertaken without any up-to-date estimate of the costs. The most recent assessment of the costs was done in 2017 by the health committee. Many things have changed since then and we do not have an up-to-date estimate, or at least none that we have seen, of how much the Government now expects Sláintecare to cost. We have seen the numbers for this year and the expected cost is €1.2 billion. Apparently, those numbers were in the budget but it was only made clear this month that that had happened. There is, therefore, a big issue of transparency there. We see this occur in many areas. There seems to be a deficiency in joining up different things across different Government documents and initiatives. Like the Deputy, we would very much like to know how much the Government thinks Sláintecare is going to cost and how fast it is planned to implement it. That is essential as the first stage.

The second stage would then be to consider the projected cost in respect of sustainability and risks. Internationally, when countries have undertaken healthcare reforms, they have often cost much more than expected and added to financial pressures. I am not saying that is going to happen in Ireland but given that we do not even have a baseline for how much Sláintecare is supposed to cost, it is very hard to think about those risks. It is urgent that the Government produces an up-to-date costing.

Deputy Patricia Ryan: In IFAC's opinion it is essential that the Government give us an update.

Mr. Sebastian Barnes: It is absolutely essential because this is a major reform. It will have a major impact on the country and on healthcare provision, but also on the public finances. If the Government were to tell us that the cost is the same as it was before, that is fine with me too. The key point is that we need to see an estimate of the cost and to understand how that has been arrived at so we can consider whether there might be risks or weaknesses. With a major change to a big area of spending, such as Sláintecare, thought must be given to potential risks and over-runs. That partly depends on how well the costings have been done and we cannot assess that because we do not have up-to-date numbers.

Deputy Patricia Ryan: I also note that IFAC's report states that the unwinding of savings could boost consumer spending. Does IFAC have a suggestion regarding how that could best be done?

Mr. Sebastian Barnes: This is really about consumer behaviour so I think we will see what we will see. It is hard to know how people are going to behave. Hopefully, increased consumer spending will help business to recover. One possible risk is that there may be some inflation in the short run as everyone rushes out to have a meal they have not cooked themselves, and so on. There will be quite a lot of uncertainty in that regard in the short run. There is probably less uncertainty regarding where we will come up afterwards, but it could have an impact. It could impact on all sorts of things, including, for example, on construction costs. We are already seeing a major increase globally in the cost of raw materials and various aspects of the construction process. It is, therefore, going to be a somewhat unusual time.

Deputy Patricia Ryan: I thank Mr. Barnes very much.

Chairman: I will open the session to another round of two to three minute slots if Members would like to indicate an interest in contributing. In the meantime, I will ask some questions of my own.

On corporation tax data and the impact of regulatory changes we may see in the next few years, we saw an effective doubling in corporation tax receipts between 2015 and 2020, when they increased from €6 billion to €12.5 million. There was economic growth during that time but we also introduced changes to the constraints concerning intellectual property, IP, and capital allowances for expenditure on intangible assets. The almost doubling in the growth of corporation tax receipts did not correspond with a similar increase in jobs in Ireland in the FDI sector. Does IFAC consider that there is a considerable level of phantom FDI-led activity in the State? I refer to the use of mechanisms such as corporate inversion and the terms of the IP regulations to simply on-shore profits in Ireland to reduce the tax paid by such companies globally. Do we have enough data on that aspect?

Mr. Sebastian Barnes: Those are very good questions. The Chairman is correct that there is a mismatch between the revenue coming in and the level of activity. Much of this activity is occurring in fairly unusual sectors anyway, from a productivity perspective. Regarding what this might tell us about the future, as we discussed earlier, one possibility is that the revenue will move while the jobs stay here. Alternatively, there might be more pressure on the jobs at the same time.

On the data, it is hard to tell. There are confidentiality restrictions in this area for good reasons. A small number of big companies are involved in this activity and, quite rightly, the way these things are handled means that information is not necessarily publicly available. It is a major area of uncertainty. These are big, complex and dynamic companies as well, so it is very hard to know what decisions they would take. It will probably depend a great deal on some of the details. Perhaps Dr. Casey has something to add.

Dr. Eddie Casey: Dr. Aidan Regan and Professor Sam Brazys have done some work on the phantom nature of some of this FDI-led activity. They tried to assess the phenomenon on the basis of the volatility of some of the receipts. That is a good way to look at this issue, but is it hard to say which activities are genuine and which may be phantom. Examining volatility is a good way to approach this issue, but it does not give us the full story of whether there is anything behind this type of activity. Profits in the major multinationals which move to this country and locate their activities here can be really volatile anyway. There can be huge transfers in a good year.

I do not know how to determine levels of phantom activity. It is an exceptionally difficult question to answer. We have tried to get around this issue by asking where corporation tax receipts would be now if, after 2014 or 2015 when they accounted for their normal share of tax receipts, they had grown in line with the domestic economy. That is a useful way to think about things on a fundamental basis. What level might we return to in a more normal situation is a useful question. That is where we come up with these estimates, such as the €3.5 billion mentioned by Mr. Barnes earlier, of how much corporation tax receipts could fall in future. These are the ways in which we think of this but it is an exceptionally difficult area in which to gain a true insight because of major uncertainty and the high level of confidentiality around individual companies and activities.

Chairman: Is it fair to say that as we navigate changes in the regulatory environment, such as BEPS, our inability to differentiate between phantom FDI and FDI that delivers jobs in Ireland will become an issue? As Mr. Barnes said, it may be that even if revenue goes, the jobs will stay, but does that impact on our ability to navigate those regulatory changes because we simply do not understand what is phantom FDI and what is not?

Mr. Sebastian Barnes: That is part of it but much of the uncertainty is what will happen to policy. Much of the uncertainty reflects the reliance on a few big companies doing very complicated things in businesses where intellectual property is a big feature. As Dr. Casey said, there is a lot of volatility as well. We have to take that as a given. Based on that, we then have to take a cautious approach to what we do about it.

The Department of Finance has taken a step in that direction by adjusting corporation tax receipts downwards by €2 billion. That actually means the level of corporation tax in 2025 will still be higher than it was in 2019. It is not a fall in absolute terms; there are just no gains. The Department started making that assumption last autumn. Since then, the risks have increased and that is one of the reasons we think a more realistic starting point would be a downward adjustment of €3.5 billion. That is also why we argue that the Department should wind down over-reliance on corporation tax in line with that sort of profile, rather than continuing to spend until we, potentially, hit a wall and have to adjust very quickly. It is one of those unknowns we have to live with and will manage best by running a relatively prudent policy around it.

Chairman: I will stay on the issue of data and analysis and ask a more contextual question about how we devise budgets in this country. Mr. Barnes mentioned that we do not have up-to-date figures on the implementation of Sláintecare. There is certainly huge frustration that people cannot have sight of the capacity review for the health service because that will obviously have major budget implications.

Regarding medium-term budget planning, we have heard from IFAC and other groups that we do not always do it very well in this country. Is it fair to say that as we move towards more performance-based budgeting, the medium-term outlook is more about setting targets and then deciding how they will be serviced? This would allow the tax base to be adjusted accordingly, looking at what we have to spend and where we will spend it, rather than what we tend to do in this country, which is annual budget development.

Mr. Sebastian Barnes: The Chairperson has picked up on two issues regarding the case for this more medium-term approach. There is a complementarity between these stronger performance budgeting-type frameworks and medium-term planning. By setting clear spending envelopes several years ahead, Departments can then plan to deliver around that. There is a big complementarity with that, which might help to increase performance and efficiency. Of course, this makes it easier, because it is not necessary to spend as much money to get to the same outcomes, or better outcomes can be achieved with the same money.

The other complementarity is a process like that might reveal more information and encourage the Government to build more data. It could then build bottom-up forecasts of these things more effectively. The Chairperson will remember over the past couple of years this has been a big problem in the area of health. Basically, a top-level, top-down target was set for the health service, which did not correspond to anything it planned to spend or any of the pressures it was under. The health service was spending on a bottom-up basis and the average overrun was in the hundreds of millions every year. This is a really big problem. Improving the budgeting framework in general, with a more microeconomic focus, would help to solve these macroeconomic problems. The two very much go hand in hand.

Chairman: One of the key messages from the IFAC report is that a large-scale untargeted stimulus would not necessarily be needed if the economy recovers as strongly as anticipated. What would the IFAC consider a targeted stimulus?

Mr. Sebastian Barnes: This is a change from our advice a year ago when we were much more worried about the economic outlook. It was not clear there was going to be a vaccine at that point and we thought that consumers and investment would be pretty depressed by now. As it turns out, things have worked out much better than that. We have seen the economy is more resilient and people are much more willing to spend if they get the opportunity and if there is a vaccine. Our previous advice, that it was possible we would need some sort of big stimulus programme, is not really needed at this point. The fact that investment is ramping up means the Government is already putting a lot of money into the economy. That large-scale, untargeted programme of pumping money into the economy programme does not seem to be required.

There may be some sectors of the economy, firms or activities where the recovery will take longer or balance sheets have taken more of a hit. The Government may need to design some programmes or measures to help those. We are basically saying the money is there should the Government feel those measures are necessary, but we should not expect to pump lots of money into the economy just to get spending going because the economy will be doing okay by that point.

Deputy Bernard J. Durkan: I listened with interest to the Chairperson's questions and I am learning as time goes by. I should mention that in quite a number of debates between 2011 and 2014, I had to apologise to all economists for what I was about to say about them regarding their predictions in previous years. I am not going to do that just now since we have had that experience, but I will ask a couple of related questions. Does IFAC accept that housing prices, housing costs and the availability of affordable housing are part of our taxation system? I believe they were and are because they create a situation whereby members of the workforce can plan ahead in the clear knowledge that they can afford to house themselves as time goes by. Does IFAC take house price inflation into account, for instance? To what extent does that impact on its projections? I have two or three other lovely questions and the witnesses will enjoy all of them.

Mr. Sebastian Barnes: Housing is obviously an important part of the way the economy works, probably more so in Ireland than most places. The tax system clearly does interact with that. Again, as a council, that is the sort of tax issue we do not look at in the context of taxation design. Housing is a very complicated issue and there are other people who know more about it than we do as a council. It is definitely important to look at this issue. We know the damage housing bubbles have caused in the past. We also know that housing is very important to the competitiveness of Ireland. As the Deputy said, it is important to the way people consume, save, plan and where they work. There are many issues. It is something we are constantly keeping an eye on and it is important for tax revenue as well.

Deputy Bernard J. Durkan: Has IFAC monitored house price inflation in the past three or four years, and the last year in particular?

Mr. Sebastian Barnes: "All the time" would be a good answer to that.

Deputy Bernard J. Durkan: What does IFAC deduce from that given it is deemed to be part of our taxation system and can be an impediment or boost to our economic growth?

Mr. Sebastian Barnes: It is something we have looked at in terms of revenue transactions and so on. There has not been much construction although there has been some. These things contribute to the tax system. Given there is a big shortage of supply in the economy, basically the speed at which supply is able to pick up will be important for growth and the growth of revenue. That is probably the main way we look at it.

We also look at evidence of a housing bubble funded by credit. We all have the not-so-distant memory of the damage that caused the economy in the past. The housing market is functioning very differently from the way it did in the housing boom years, but we continue to monitor it very carefully.

Deputy Bernard J. Durkan: I will ask about GNI*, GNP and GDP, alongside each other. How do we rate at present in terms of all three, knowing that we did not believe the GDP and GNP figures? To what extent are those three measurements in concert with each other at the present time?

Mr. Sebastian Barnes: I will let Dr. Casey go through the details of that.

Our analysis now focuses on modified gross national income, GNI*, because we think that is the best and most appropriate measure of the domestic economy, and what is most relevant for taxation. We focus a lot on that.

We would welcome moves by the Central Statistics Office to improve the data that are available on GNI*. We also highlight very good work done by the Department of Finance in moving more towards these domestic measures in its projections. The fiscal advisory council has been actively looking at these. Once we start to correct for the external sector everywhere it shows up in the economy, we end up with quite a different picture of how the economy looks. For example, we get a picture of the economy that is much less open and has much fewer exports and imports on a star basis than it does if we look just at raw numbers. That is very important for understanding the economy. I give credit to our secretariat for playing a leading role in the development of those measures but also to the Department of Finance for including GNI* in its forecasts.

Maybe Dr. Casey can give us a sense of how GDP developments, which are much more influenced by the international sector, compare with what we have seen on GNI*.

Dr. Eddie Casey: The main thing to point out is that GDP and GNP have held up much better than the domestic measures we look at, the GNI*. All our focus has shifted to GNI*. We have tried to promote that re-emphasis in our reports by scaling everything we look at relative to GNI* and looking at growth rates in GNI* terms. It is how we think about the economy now. If we look at tax revenues that the Government takes in, it is a much better way of explaining what is happening with those tax revenues. There is a much tighter relationship historically with tax developments if we look at tax relative to GNI*, rather than if we look at things like GDP.

Where we are now, if we take GNI* relative to GNP, the former is at about three quarters the level of the latter and actually closer to half of what GDP is. We can see that the scale of the gap between the two measures has ballooned in recent years. We remember the 2015 surge in GDP and the claims of "leprechaun economics" that were being made internationally. GNI* and GDP diverged quite a bit that year, and that divergence has continued ever since. This highlights the degree of pollution in the data that is caused by large-scale activities by foreign-owned multinationals.

Deputy Bernard J. Durkan: To go back to our reliance on taxes on corporation profits, to what extent does IFAC view the 15% corporation tax rate that has been mooted in debates in recent times as speculative? The final figure might be 13% or 13.5% as a bigger increase than that might disturb projections across the globe to an extent that might be unforeseen.

Mr. Sebastian Barnes: This is a big and important question. As an advisory council, we just do not have the insight into what is going to happen. To be honest, I am not sure anybody really does. These are hard, complex international negotiations that are difficult to predict.

Deputy Bernard J. Durkan: Will we see, for instance, repatriation of companies across the globe? I do not envisage that but I am a modest observer and I do not know. However, it seems improbable that the impact on individual companies would be such that it would damage the companies to a totally unnecessary extent. The yield might not necessarily compensate for that. What is IFAC's view?

Mr. Sebastian Barnes: One thing we do know is what has happened so far. In the earlier phases of the base erosion and profit shifting, BEPS, process, many people expected the outcome to be very unfavourable to Ireland. In the end, because of the precise way that BEPS happened - and maybe because of other factors that arose at the same time - we had a big surge in corporation tax receipts. This shows that over a period of a couple of years, companies can move these tax revenues in very big amounts relative to the scale of the Irish economy. We know that. Whether they will be moved to do that again depends on what happens on the policy side and other factors.

These things can move. It is not a one-way street. That is why we need a prudent approach on the corporation tax side. We need to reduce the structural reliance on that spending in the years ahead. We need to do that as far as we can under our own control, which means saving it and being prudent rather than waiting for a measure to be imposed on us.

Dr. Eddie Casey: If I can plug some of the very good recent work that the ESRI has done on this, it looks at potential impacts of raising corporation tax rates. It highlights two really interesting points. First, one of the only areas on which Revenue does not provide an estimate is how much any change in the corporation tax rate would raise. That we do not know what kind of impact a change in the corporation tax rate would have has highlighted the level of uncertainty in this regard.

The second area highlighted in some very good and complex work done by Professor Ronald Davies and others in University College Dublin, UCD, is the probability of future FDI flows coming into Ireland if we were to change the rate. Professor Davies suggested that a 1% increase in the corporate tax rate would reduce the probability of Ireland being chosen as a location for new FDI from outside the European Union by 4.5%. This gives us a sense of what could happen. However, because things are so concentrated in a handful of very large companies, it is hard to say that this is exactly what would happen or this is the behaviour we could see in future.

Deputy Bernard J. Durkan: Is there a danger that we might create a self-fulfilling prophecy, since this issue has preoccupied our thinking for some years? Various people around the globe have spoken as if they had intimate knowledge of the damage Irish corporation tax was doing to the international economy in the last century. It was found at the peak of the economic crash that a number of other countries had incentives in place in their economies that were even more favourable than those provided here, but nothing was said about it at that stage. I know changes have been made since. However, is there a grave danger that we could create a problem through our continuous preoccupation with what is seen to be the necessity to increase corporation tax, which incidentally is a tax on employment? It will affect the workforces in various countries. Incidentally, a number of Irish investors have invested overseas. How are they likely to be affected in the event of there being major changes here?

Mr. Sebastian Barnes: I think the real risk is that this is something that is not under Ireland's control. Ireland does not have a great deal of influence on what will be decided in the United States. It might have some, but the US will mostly decide on the basis of what it believes to be in its interests. That is why the main thing that we can do in Ireland is to plan, so that if the likelihood materialises that we lose a big chunk of corporation tax, that will not make a big hole in the public finances because we will have prepared for it properly. That is the best we can do because it is essentially out of our control.

Deputy Bernard J. Durkan: Is there a danger that if we, in this country, were to conclude that we had to change, other countries would decide that because Ireland had made this particular change, they would no longer need to campaign for it? Would we damage the attractiveness of Ireland as a location for foreign direct investment, even though we need FDI on an ongoing basis?

Mr. Sebastian Barnes: As I said on the international tax side, the degree of control that Ireland has is very limited. As one of the Deputy's colleagues correctly pointed out earlier, there is both a public finance aspect to the planning and a question of keeping Ireland attractive for FDI. There are many reasons unrelated to tax that companies choose Ireland as a location. There may be things that public policy can do better to support that in a cost-effective way. That is, again, one of the levers that people should be thinking about in years to come because, clearly, the risks are much higher than they were a year ago.

Deputy Bernard J. Durkan: My final question relates to whether it is possible that a global increase in corporation tax across could bring about changes that are not anticipated at this stage, that are not desirable from the point of view of the growing economies and that may not necessarily yield the benefits anticipated in some quarters? Keeping in mind that a repatriation of all US-based companies may benefit the US, it also might not do so because the rate may have to be changed again, unless we get into a global tax war, which would not be beneficial to anybody.

Mr. Sebastian Barnes: As the Deputy's question suggests, this is a very complex issue. The way corporation tax works is complicated. It is complicated from an economic point of view because it interacts with other taxes and because most corporate tax codes are also complex. I would say that many countries are in a situation where they have high rates, but their base is being eroded significantly, not just by international things, but by domestic choices. There is a lot to be said about international corporation tax. It is very complicated and I am not an expert in that subject, in the context of Ireland or any specific country, so I cannot say much more about it. It is an issue, however, and these things need to be looked at. The Commission on Taxation and Welfare will also be thinking of some of these questions in an Irish context.

Chairman: I thank the witness and the Deputy. We have reached the end of the session.

All that remains for me to say is that the Irish Fiscal Advisory Council has published quite a significant report. The committee will discuss it at its private meeting. Personally, I would be interested in a formal response from the Department on the concerns the council has raised in its report, which I think are valid.

I thank the witnesses, Mr. Barnes, Dr. Bergin, Mr. Giustiniani, Ms Holland, Professor McMahon and Dr. Casey, for their attendance and for their assistance to the committee.

The select committee adjourned at 11.32 a.m. until 9.30 a.m. on Thursday, 3 June 2021.