DÁIL ÉIREANN

AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Déardaoin, 24 Meitheamh 2021

Thursday, 24 June 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	
Richard Boyd Barrett,	
Seán Canney,	
Bernard J. Durkan,	
Michael Healy-Rae,	
Aindrias Moynihan,	
Patricia Ryan.	

Teachta / Deputy Mairéad Farrell sa Chathaoir / in the Chair.

Tax Expenditures: Discussion

Vice Chairman: The committee will be engaging with representatives from the Economic and Social Research Institute, ESRI, and Dr. Collins to discuss tax expenditures as part of the committee's pre-budget 2022 scrutiny. I welcome Dr. Micheál Collins, assistant professor, school of social policy, social work and social justice, UCD; Dr. Barra Roantree, economist and research officer, and Dr. Theano Kakoulidou, postdoctoral research fellow, ESRI.

Before I begin, I wish to explain some limitations to parliamentary privilege and the practice of the Houses as regards references witnesses may make to other persons in their evidence. The evidence of witnesses physically present or who give evidence from within the parliamentary precincts is protected pursuant to both the Constitution and statute by absolute privilege. However, if a witness is giving evidence remotely from a place outside the parliamentary precincts, he or she may not, as such, benefit from the same level of immunity from legal proceedings as a witness physically present would do.

Witnesses are 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 may be regarded as damaging to the good name of the person or entity. Therefore, if their 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 reminded of the long-standing parliamentary practice to the effect they should not comment on, criticise or make charges against a person outside the House 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 requirement that they must be physically present within the confines of the place which Parliament has chosen to sit, namely, Leinster House and-or the Convention Centre Dublin, in order to participate in 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.

Cuirim fáilte roimh na haíonna atá ann inniu. I ask Dr. Collins to give the opening statement.

Dr. Micheál Collins: I thank the Vice Chairman and the committee for the invitation to meet with them and make a presentation this morning. As mentioned, I am an economist and assistant professor of social policy at the school of social policy, social work and social justice, University College Dublin. I was also a member of the 2008 to 2009 Commission on Taxation and, within the commission, chaired the subgroup on tax expenditure. As a researcher, I am also part of an international research group focused on the links between taxation and social policy and within that I focus on the often hidden role of the State in using taxation systems to encourage and support certain activities among individuals and corporates via tax expenditure.

I also welcome the decision of the select committee to return once again to the topic of tax expenditure. The committee's report on the topic from 2019 was most welcome and reflected the relevance of giving this area increased attention as part of the annual budgetary oversight process.

It may be useful to put the scale of tax expenditure in some context. Budget 2021 outlined an expectation that the State will collect €77.6 billion in tax and social insurance contributions this year. Data from the Revenue Commissioners for 2018 show approximately 85 discretionary tax expenditure measures costing a total of €15.8 billion in revenue forgone. These are measures which are not structural to the taxation system but which have been put in place to incentivise certain activities or as a means of pursuing certain policy objectives. Many of these are well targeted and worthwhile, although for the most part we assume this rather than have any hard evidence to support it, while others have a less robust basis for defending their cost and effectiveness. Overall and put simply, for every €5 collected in taxation and social insurance, the State currently decides not to collect an additional €1 forgone through the provision of various tax breaks and reliefs.

The information available to this committee, and to Irish society in general, regarding tax expenditure measures has increased dramatically over the last decade or so. When the Commission on Taxation commenced its work in 2008, there was limited information on the annual costs. This situation has been transformed following the work of that commission, revisions to the scale of information on tax expenditures published by the Revenue Commissioners, annual reports from the Department of Finance and requirements at European level for all countries to report on the nature and scale of the tax resources they decide not to collect each year via tax expenditure.

While this increase in information is welcome, there remains a deficit in parliamentary scrutiny of tax expenditure measures concerning new proposals and existing provisions. I encourage the committee to consider these measures as equivalent to direct expenditure by Departments or Government agencies and to approach them in that way. In particular, I recommend and encourage the committee to select a theme each year and to review the merits of each existing tax expenditure measure under that scheme. Approaching the long list of tax expenditures in that way will make them more accessible and the exploration more intuitive. I also recommend that the committee review the case made in the budget and finance Bills, and in associated documentation, for the introduction of each new tax expenditure measure. The Commission on Taxation and the Department of Finance have each provided a useful set of criteria to assess the appropriateness of new measures and it would be worthwhile for a committee such as this to consider if the measures as proposed and designed adhere to these criteria. Overall, if we treated tax expenditure more like new and recurring departmental expenditure it would represent a more comprehensive assessment of the State's decisions regarding taxation collection and resource allocation.

While my main message to the committee is concerns the merit of establishing recurring and structured assessments of tax expenditure as part of the process of budgetary oversight, I am conscious of the discussions the committee has had in recent months and the forthcoming post-pandemic fiscal context. The pandemic has reminded us of the often hidden role that welfare states, such as ours, play in providing a safety net for all members of society. No doubt, that experience will frame much of the policy response in the years to come and points to at least a greater recognition of the role of the State and, most likely, a more enhanced role for the State. Coupled with the impact of higher public debt, higher than anticipated debt-financing costs and the long-overdue reform of the international corporate taxation system, it seems inevitable that the State will have to raise more taxation on a recurring basis once the pandemic has subsided. In the absence of large-scale reductions in public services and redistributive supports, an increase in total taxation and social insurance contributions is a matter of how and not if.

Within the context of broadening the tax base and ensuring a progressive overall taxation system, reforms to tax expenditure have an important role to play in the period ahead. The following is a shortlist of five such reforms which I encourage the committee to consider in the context of budgets in the years to come. These measures are a mixture of those seeking to enhance fairness and those likely to generate significant additional taxation income; some do both. The first of these measures is to broaden the high-income individuals' restriction to cover all tax relief measures. Currently, this measure, which ensures a minimum income taxation contribution from higher earners, those on more than €125,000 per annum, applies to specified reliefs rather than all tax reliefs. As a consequence, some tax expenditure measures, such as relief on pension savings, are excluded from the restriction. It makes sense to have a minimum income taxation contribution. There was none prior to when this measure first emerged in 2006-2007, but it should cover the use of all tax relief measures. The committee should note that the minimum rates are low, when benchmarked against the rates paid by others down the earnings distribution. Currently, the minimum rate gradually rises from 20% at €125,000 to 30% at €250,000 and to 40% at €400,000 and above. A 20% rate is equivalent to the tax level faced by a single PAYE worker earning €39,000.

A second proposal or suggestion is to phase out tax credits for those earning more than €100,000 per annum. The provision of tax credits to workers, the self-employed, and families is an important part of the tax system. These measures are in strict terms tax expenditures, although I did not include them in my calculation of discretionary tax expenditures, which were mentioned earlier. While these measures serve important objectives in terms of work incentivisation and income support for many earners, particularly those on lower income, they have less relevance to those on the highest incomes in our society. Revenue data from 2016 showed that approximately 85,000 earners with incomes above €100,000 per annum are less than 3% of all earners in the State. Phasing out the personal tax credits from these earners would have almost no disincentive effect and would generate approximately €70 million per annum in additional income taxation.

A third area is the reform of tax reliefs associated with pension savings. The largest area of personal tax expenditure relates to pensions. Overall, pension reliefs amount to €2.7 billion per annum in revenue forgone. Reform to this area sits in the context of other proposed reforms to pension savings supports, including the introduction of auto-enrolment, which may carry significant additional costs in State subsidies and tax expenditure. Within the area of pension savings, three tax expenditure measures are worth reforming. The first of those is limiting all pension contributions to tax relief at a single rate of income taxation. Currently, this is offered at the marginal rate. This means that the State supports the savings of higher income earners more than those on lower incomes. Depending on whether the adjustment was to a standard rate for all or to a hybrid rate, say 31%, the annual savings would be between €200 million and €400 million per annum.

A second aspect in the context of pensions relates to restricting the tax-free lump-sum payments to an equivalent to two thirds of average earnings. At present, the first €200,000 of pension savings, or up to 25% of the total, can be drawn down tax free. This is an abnormally high level in international contexts. Many countries do not facilitate any tax-free drawdown. The benefit is much greater to those with the highest incomes and the largest pensions savings. While there is a case to abolish the tax-free lump sum in its entirety, the provision of a smaller tax-free lump sum to all retiring workers has some merits. A value set at two thirds of average earnings would correspond to approximately €30,000. The Revenue Commissioners have not provided a costing of this tax expenditure since 2014. It then cost €134 million.

The third aspect regarding pensions relates to reducing the standard fund threshold, SFT, to

€1 million. The SFT is a limit or ceiling on the total capital value of pension benefits that an individual can draw from tax-relieved pension arrangements. It is currently set at €2 million and has been since 2014. It was €5 million when it was introduced in 2005. It reached a peak of €5.4 million in 2010. Prior to 2005, there were no tax-supported pension savings limits. In effect, the threshold represents the point at which the State will step aside from using tax reliefs to support pension savings. Judged from that perspective, it is difficult to justify why the State should continue to subsidise savings beyond a threshold of, say, €1 million. It is not that individuals should be impeded from saving resources at more than this level. Rather, it is that the State has done its job in supporting savings, when they reach this point. There are better uses for the State's resources beyond that. The fourth area of tax expenditure I wanted to bring to the attention of the committee is to abolish the special assignee relief programme, SARP. It provides a tax break to high earners, those working for international companies who relocate to Ireland and have earnings of more than €75,000 per annum. According to Revenue data, individuals earning above €75,000 are in the top 6% of earners in the State. The scheme provides for full income tax relief on 30% of income over the €75,000 threshold subject to an upper limit of €1 million per annum. The scheme also allows tax-free employer-provided benefit-in-kind of €5,000 per child per annum in school fees and one trip home per year for the individual and his or her family. In 2018, the scheme cost €42.4 million and was availed of by 1,481 individuals at an average benefit of €28,629. Based on the Revenue Commissioners' numbers this suggests the average recipient has an income of €313,000. That would put them in the top 0.5% of the earnings distribution. While there are economic benefits to schemes such as this, one could make similar arguments for many other jobs and roles, do earners at this level of income need a tax reduction? On the grounds of fairness, the scheme is hard to justify. Simply, there are better uses for these resources.

The fifth area is on standard rating of other tax reliefs. There is a general point of principle where government supports are provided through the taxation system, they should be worth the same to all income tax payers irrespective of whether they are fortunate enough to have a high income. As well as the aforementioned tax relief on pension contributions, a number of other tax expenditures are granted at the marginal rate, that is, that they are worth 40% to some and 20% to others. A recent reply to a parliamentary question identified that making this reform for those tax expenditures costing more than €5 million per annum would yield €147.7 million in additional taxation revenue each year. Again, on the grounds of fairness, such a reform seems appropriate.

I thank the committee for the opportunity to engage this morning. I strongly encourage it to adopt a recurring and systematic approach to the oversight of these budgetary choices. Tax expenditures are a hidden but important part of the decisions we make on the allocation of state resources.

Dr. Barra Roantree: I am joined by my colleague, Dr. Theano Kakoulidou. We thank the committee for the invitation to appear on foot of a report published through the ESRI tax, welfare and pensions research programme, which examined options for raising tax revenue, including by restricting tax expenditures. The reviews expressed in the report and by ourselves today are our own and should not be taken to represent those of the commission on taxation and welfare to which I was recently appointed.

As set out in our report, we believe there will be a need for tax increases in coming years to pay for planned and promised spending increases, for example, to implement Sláintecare and to maintain existing levels of public services in the face of an ageing population. Such increases are unrelated to ongoing Covid-19 spending and go above and beyond the additional level of borrowing that our ESRI colleague, Dr. Kieran McQuinn, has shown could be sustainably financed given the current low level of interest rates. This need for future tax increases is made more pressing by structural deficiencies in the existing revenue base, including a potential over-reliance on volatile and highly-concentrated corporation tax receipts and an inevitable decline in motor tax revenues as part of our planned transition to electric vehicles. Our report provides a range of options that a future government seeking to raise or replace tax revenues might consider. In doing so, it does not seek to advocate any particular tax raising measure as ultimately those are political decisions that depend on distributional goals, value judgements and wider priorities; rather it seeks to provide evidence for those in the Houses of the Oireachtas who have responsibility for making those decisions.

We argue in the report that the most straightforward way of raising substantial tax revenues is through increases to the main rates of income tax, the universal social charge, USC, PRSI, VAT and the local property tax. Even small increases to any of these broad-based taxes could generate considerable revenue precisely because they affect almost all households. Such tax rises can be designed to meet a range of distributional objectives with, for example, increases to higher rates of income tax and the USC at the most progressive and increases to VAT the least progressive options. The report also considers measures more targeted at the better off, as well as options for raising revenue by restricting tax expenditures, a topic to which I now turn.

While many tax expenditures are well targeted at achieving clear and coherent policy objectives, we draw attention, in our report, to around a dozen which are less well targeted or have a questionable underlying economic rationale. Three reliefs we highlight that are particularly poorly targeted are as follows. First, business and agricultural relief from capital acquisitions tax, CAT, cost €360 million in 2019, an average of almost €175,000 per claim. While intended to support the growth of, and succession within, small family farms and businesses, the relief, as currently structured, primarily benefits those inheriting substantial rather than small family farms and businesses. Second, a reduced 10% rate of capital gains tax, CGT, on certain assets called entrepreneur relief, which cost €92.4 million in 2018, an average cost per claim of more than €100,000. Such blanket reduced rates of tax are poorly targeted at encouraging start-ups, with evidence on a similar UK scheme suggesting the relief is more likely to generate efforts to avoid tax on retirement than to spur entrepreneurship or investment. Third, allowing those retiring to draw down €200,000 from their pension as a tax-free lump sum, which cost €134 million in 2014, the latest year for which data are available. In addition, people can draw down an additional €300,00 at the basic rate of tax of 20%. That primarily benefits those with substantial pension wealth, especially in the form of defined benefit pensions, and encourages the withdrawal of large lump sums on retirement, something that is hard to reconcile with the Government's goal of encouraging individuals to ensure a regular stream of income in retirement.

The most recent information available on the cost of the tax-free pension lump sum dates from 2014 raises a broader issue about the availability and transparency of information on tax expenditures. It is something that both the committee and the Parliamentary Budget Office have highlighted previously. While there have been some welcome steps towards the greater availability of information in recent years, there is still room for substantial improvement. This is especially true in terms of CGT and pension reliefs, where many previously available costings are no longer provided by either Revenue or the Department of Finance.

There is also room for improvement in the way in which we review and evaluate tax expenditures more generally. Evaluations are routinely based almost exclusively on responses to surveys of beneficiaries gathered through a non-representative public consultation process, a methodology which cannot deliver rigorous or credible evidence on their impact. One way in which that could be addressed is the development of expertise within the Irish Government Economic and Evaluation Service, IGEES, perhaps through the establishment of a dedicated tax expenditure evaluation unit. Another is by ensuring that reviews of tax expenditures are published in advance of, instead of on, budget day to allow for sufficient scrutiny, perhaps alongside the Department of Finance tax strategy group papers, which, in a welcome move, are published before the budget in the autumn.

As we conclude in our report, the likely need for significant tax increases in the years ahead provides an opportunity to reassess how effective various parts of the tax system, including tax expenditures, are at achieving their objectives. Doing so could result in a tax system that not only raises the revenue necessary to fund desired levels of public spending in the years ahead, but one that is better designed to meet the challenges of the coming decades.

I thank the committee members for inviting us to appear before them and I look forward to answering any questions that they may have.

Chairman: Go raibh míle maith agaibh, Dr. Roantree and Dr. Kakoulidou. I will open the floor to members now. I am first on the list of contributors, so I will begin.

I will address Dr. Roantree and Dr. Kakoulidou first. I will start with the news of the day in respect of the announcement that Irish growth is forecast to be 11% for the year, despite the unemployment rate remaining at 16%. We know that Ireland had the fastest-growing economy in 2020. It was one of the few growing economies in the world. That was with the Covid-19-adjusted unemployment rate of approximately 25% and the longest lockdown in Europe. We know that changes to international corporation tax arrangements could negatively impact our corporation tax baseline to the tune of €2 billion to €3 billion annually. I note, from the witnesses' opening statement, that there is a potential over-reliance on volatile and highly concentrated corporation tax receipts.

I also note that details of a scenario analysis are provided in table A.1 of the Quarterly Economic Commentary. This analysis details growth rates for Irish exports in 2021, and makes a comparison with a non-pandemic baseline. I found that really interesting. In the absence of a pandemic, export growth would be 6.9%, whereas it is currently forecast to be 13.3%. Do the witnesses consider that very strong growth rate as indicating that we are in a corporation tax bubble? I am interested in the over-reliance and the volatility in that. In its report, the ESRI says that this is linked to the pharmaceutical and IT sectors. Can Dr. Roantree say how many companies are driving this growth? I would be very interested to know what kind of relationship that has with the real economy. I would love to hear his views in that regard.

Dr. Barra Roantree: I thank the Deputy for her question. The ESRI report published this morning was authored by my colleagues, led by Professor Kieran McQuinn and Dr. Conor O'Toole. It highlights the incredible performance of exports over recent months. That is what kept growth so strong over recent months as measured by GDP, although we all know of the problems and issues with that. That growth looks like it is set to continue. That is what is driving the very high growth figures in the report.

With regard to over-reliance on corporation tax, this is something we highlight in the report. The most striking illustration of this is the fact that just ten companies were responsible for over 50% of those receipts in the latest year for which we have data, 2019. Many of those firms make a vast contribution to the real economy as well as to the Exchequer coffers. We do not know exactly which companies these are. We may be able to guess. I direct the committee towards the work of Seamus Coffey in that regard. He put some interesting information together and has identified which firms he believes some of those big players are. I direct the committee towards that work in respect of the specific companies involved. Many of these companies are also linked to the real economy. This does not get us away from the fact that, by virtue of so much money coming from so few companies, we are left in a position whereby something outside of our control may happen due to the actions of, for example, the US Government which could significantly affect the amount of revenue collected. That is a real cause for concern and is something we highlight in the report. It is something we should seek to address in the coming years.

I will highlight an additional revenue vulnerability which does not get as much attention. I mentioned it in the opening statement. We currently raise approximately €3.5 billion a year from taxes on motor fuels. That is linked directly to the burning of fossil fuels. We know the plan is for us to transition towards electric vehicles. The official Government strategy is not to burn the fuel which gives rise to the excise duties and other taxes that are responsible for this revenue. There is therefore a real need to look at how to move away from those revenues and at how to replace them. It is quite a substantial amount of revenue to replace before we even get on to the question of the likely increased demand for public services in the coming decades, which Dr. Collins highlighted in his statement, and how to pay for them. There is a real challenge before us in the years ahead. It is not just because of a potential over-reliance on corporation tax but that is an important factor.

Vice Chairman: Dr. Roantree notes that it would be beneficial to have some review, evaluation and reporting of tax expenditures. Personally, I have an interest in tax gap analysis. There is much value in carrying out such analysis on different tax heads. In a nutshell, the tax gap measures the difference between what is collected, the effective rate and what would be collected if everything that was owed was paid, the nominal rate. Examples of such gaps arise from the likes of aggressive tax planning, tax arbitrage, tax fraud and tax evasion. The revenue loss can also be caused by negligent omissions in insolvencies. Tax gaps are handy for legislators who are not necessarily tax experts to look at with a view to identifying where these revenue losses occur. What is Dr. Roantree's view on incorporating such analysis into the budgetary cycle?

Dr. Barra Roantree: It would be welcome. That type of analysis is carried out in other countries. It provides very useful information for legislators, as the Deputy has set out. It can be conceptually difficulty. The whole area of tax expenditures is fraught because it is both conceptually and empirically difficult to work out how much many of these things are costing. The reason for this is often that these are measured relative to a benchmark and it is not always clear what the benchmark should be. An example that comes up frequently is in the area of the taxation of pensions. What should be considered the benchmark in that regard? There is no right answer to that question. There are a number of possible answers, some of which are more credible than others. Ultimately, setting out what should be considered a tax relief in the context of pensions depends on how you think about the benchmark system and what you consider a neutral system to compare it to. It would be welcome to see more work on tax gaps. It is something that could form part of the work of a new tax expenditure unit, or would be related to, if one were to be established. As the committee well knows, having studied the issues through multiple reports, it is in many cases a thorny issue to identify how much a tax expenditure costs and getting the estimate can be difficult. That does not mean we should not try or have a good, credible process for trying to get that estimate.

Deputy Mairéad Farrell: I am interested in also hearing Dr. Collins's views on tax gap analysis. He mentioned the hidden role of the State and using the taxation system to encourage and support certain activities among individuals and corporations via tax expenditures, an issue I am interested in. Anybody who has studied economics will have heard of the invisible hand of the market, but it is often mentioned to the exclusion of the hidden hand of the State. The State, through the taxation system, can be used to modify taxpayer behaviour, while corporate taxation can be used to modify corporate behaviour. I am interested in the investor court system that is part of CETA. In the opinion of many people, those kinds of courts can have a chilling effect on legislatures. What are Dr. Collins's views on the imposition of such a court system? Will it negatively impact on the State's ability to use the taxation system to modify corporate behaviour?

Dr. Micheál Collins: I might begin by picking up on one small matter related to the questions the Deputy had for Dr. Roantree. The ESRI's report today is interesting and we will see a bounceback, but we should remember and expect that the bounceback to the economy will be quite uneven among sectors of the economy and regionally, which throws up a number of significant issues. Points that both Dr. Roantree and I have raised suggest there will be added pressure and need for the State to engage in further expenditure in the decades to come, and there are issues and challenges regarding how we will raise the revenue to pay for that.

Regarding that, the examination of the difference between what the State expects to receive in taxation and what actually arises is worth pursuing. Tax gap investigations are challenging and difficult to conduct, but we should watch them. It would be interesting for committees such as this to explore those issues and put them on their agenda in the years to come as budget policy is examined. We spend much time thinking about budgets and budgetary policy decisions before they happen and then do not examine them enough after they have occurred and been implemented. There is an important role, in the context of oversight for budgetary decisions, to begin to think about that. I am familiar with some work done on tax gaps relating to VAT that suggests there are leakages there. Some interesting comparative analyses have been carried out, through EUROSTAT and others, on that as well.

It aligns with the issues we are examining in respect of tax expenditure as well. In a sense, as I put it earlier reasonably simply to try to make it accessible to as many people as possible, for every €5 the State collects in tax and social insurance, there is a further €1 it does not collect because it decides not to do so through the provision of various tax reliefs and measures. They are entirely legitimate and we have made decisions for the system to be structured in that way. Some of that relates to legitimate decisions that are worthwhile for the State, while for others there are questions that should be raised and examined from time to time, which is why it is so important that committees such as this one ask these questions from time to time. It is part of that hidden role of the State. The State has a significant impact, through its taxation decisions, on the resources it needs to collect. If it decides not to collect a certain amount of money and resources there is a kick or knock-on effect for either raising that money elsewhere or cutting back on the provision of public services, which is the alternative to that. I have to honestly say to the Deputy that I am not an expert in the world of the detail of the Comprehensive Economic and Trade Agreement, CETA, so I will avoid that question, please, purely on that basis.

Chairman: That is not a problem. Gabhaim buíochas leis an Dochtúir Collins. Glaoim anois ar an Teachta Durkan.

Deputy Bernard J. Durkan: I thank the Chair and I welcome our guests to this morning's meeting. I have just a couple of questions. What worries me most, as I have often said before, is that when economists start talking about the things that can happen with relative ease, I begin to get worried because that has not been the experience in the past. My first question is what do our guest witnesses consider as higher earners and people who might be suitable for the phasing out of tax credits, for example, and at what level of income do they meet the criteria of higher earners? Is it €100,000, €150,000 or is it €200,000? What is it? Can any of our guests answer that question, please?

Dr. Micheál Collins: I am happy to come in on that question given that I would have mentioned the term once or twice. It is not an unfair question and one can look at it from the perspective of asking people who are low earners or high earners and it is always very hard to define those thresholds. The high earner restriction, which is the structure that the State has in place to ensure that taxpayers pay a minimum rate of income tax, kicks in from an income of €125,000 a year. Our legislation and the structures that the Revenue Commissioners implement define high earners as incomes of €125,000 and above. When one puts that against the figures that the Revenue Commissioners show for all of the earners in the State, about 6% of these earners are above €125,000. It is, therefore, quite a small group of people.

Deputy Bernard J. Durkan: If they have an income of €125,000 before tax, should they presumably have an income after tax of roughly half of that?

Dr. Micheál Collins: No, Deputy they would not, because there is not anyone in the State who would pay anything near that. A single individual on an income for of €125,000 a year would pay somewhere from 38% to 40% of their income in taxation and social insurance, assuming that they did not avail of any potential tax reliefs through savings and pensions, or something like that.

Deputy Bernard J. Durkan: The point that I want to get at there is that that we, as Dáil Deputies and Oireachtas Members, are regarded as well-paid. We would pay an amount greater than that. I would admit myself to not having any special pension arrangements or anything like that but approximately 50% of the income is gone by one means or another.

My next question is on pensions. Dr. Collins is proposing as if it was a simple thing, to change, for instance, the entitlement to pensions and to defined pension funds. Has Dr. Collins looked at the degree to which that kind of policy can be successful given that people were led to believe during the course of their working lives that they will have an entitlement to "X" "Y" or "Z" at the end of these lives? When one interferes with that, has Dr. Coillins looked at the legalities and constitutionality of those proposals?

Dr. Micheál Collins: On the pension proposals, I have not been suggesting taking away anything that individuals who, as part of their employment, would have already in place but it is rather about reforming it currently so that future contributions receive less tax relief on the way into pension savings.

Dr. Roantree and I prepared our contributions independently but we both highlighted the issue of lump-sum payments for employees. Many workers are of the view that when they retire, their pensions will initially pay out a tax-free lump sum and that they will subsequently receive a pension payment. The first point I would make is, internationally, that is an unusual system. The second comment I would make is that at one point I was of the view that should not be in place and that we should ensure individuals had sufficient resources in their pensions to be able to support themselves and their families for the rest of their lives. I was convinced by one of my fellow members on the previous Commission on Taxation that it was a good idea-----

Vice Chairman: Dr. Collins, your screen has frozen.

Dr. Micheál Collins: Let me reverse back in case members missed the point I was making. There is some merit in individuals receiving some lump-sum payment that is tax free on retirement. The proposal I suggested is it would be of the order of €30,000. Unfortunately, we do not have enough information from the Revenue Commissioners and others to give us an insight into how big lump sums are. They are very big for some individuals but tend to be quite small for the vast majority of individuals. We can see that from the structure of retirement. It would be good to have that information. Some limits should be on such payments. That is the logic of the point I was making. It would not take resources away from individuals, the resources would remain in the individuals' pension savings accounts and they would draw them down and pay income tax, as appropriate, on them over the remainder of their years. It is not about taking anything away from people but about making the system fairer and limiting the exposure of the State to some of the costs.

Deputy Bernard J. Durkan: As public representatives, we would have dealt with quite a number of disgruntled contributors to various pensions funds in recent years who found that they would qualify for part of what they anticipated or would receive a minimal amount per month which, effectively, was no good to them. To what degree has Dr. Collins consulted representatives of pension funds and their contributors to ascertain what the reaction might be? Two reactions come to mind. The first is a political reaction and the second is that if you want to stir up a serious reaction towards any proposal, attack the pensioners. That is where you would get the biggest reaction. To what extent has Dr. Collins already investigated that matter?

Dr. Micheál Collins: I will respond briefly and then pass over to Dr. Roantree. I am involved with some colleagues as part of a pension policy research group. We engage with others in the pensions space. For the most part, the suggestions are not about taking resources away from current pensioners but are about reforming the system into the future and, therefore, limiting the cost to the State of it. There is a recognition, which I would share, that the current structure of pensions, in many cases, is not working. The experiences the Deputy and his colleagues encounter from time to time are not surprising in terms of the difficult circumstances in which individuals find themselves because of the risks their pension funds have taken. This throws up questions as to whether we should have a private pension system or whether we should only have a much more enhanced State pension. I am of the view we should not have any private pension system and should have purely a proper and more generous universal State pension. Perhaps, however, that is a discussion for another day and for another committee.

Deputy Bernard J. Durkan: I am looking at Deputy Boyd Barrett. In 25, 30 or 40 years, when it comes to him having access to a pension, to which he has contributed in good faith, which we have to do through the public pension fund, I would like to think that he would get the benefits of it. I would find it difficult to be able to sell to people that, in the future, they are not going to have a pension like there used to be and that they are going to have to take a lesser slice of the action. How is that going to be compensated for? I am using Deputy Boyd Barrett as a guinea pig in this scene but somebody has to be a guinea pig, and we had better take a young fellow. How do we sell this to that age cohort? We are selling to them the idea that they are going to have to take a lot of risk, with spouses, kids, huge mortgages and so on, and, at the end of the day, they cannot look forward to the fruits of their labours turning up in a lump sum payment because we are going to take that away beforehand. How are we going to compensate for that?

Dr. Barra Roantree: I will come in on that question. I am part of a team at the ESRI that has done some research on a few issues related to that. One aspect is the adequacy of income in retirement. An issue we have highlighted is that while, on average, pensioners do very well relative to the rest of the population and their rate of poverty is less than the general population, in particular children, that is very sensitive to the rate of the State pension. The key determinant is the level of the State pension to the extent that if we keep hold of earnings growth in the economy, rates of poverty among pensioners are not going to increase, but to the extent that it falls behind, they will.

One particular area that we point to is the issue with pensioners living alone, who maybe do not get as much attention as they should. They are the group of pensioners that are more likely to have inadequate income in retirement and to fall below the poverty line, however it is measured. We point to ways of ensuring those people have adequate income in retirement, for example, ensuring the living alone allowance is increased as it can be very well targeted towards the group of pensioners that are at risk of poverty.

The Deputy raised a good point on the importance of stability in the pension system. These are decisions people are taking over a long period of time and it is important there is a clear system and that that system is not changing every few years because, otherwise, it gets very hard to save and to encourage people to save. The Deputy raises an important point about certainty. However, as we both set out in our opening statements, there are some aspects of the pensions and taxation system that are not particularly coherent, sensible or fair, however we look at it. To me, the one that stands out from that point of view is the tax-free lump sum, which primarily benefits very high earners. To get a €200,000 tax-free lump sum, people have to have a very generous defined benefit pension and have to have been on a high level of earnings throughout. I would not be be particularly worried about anyone who might be affected by reducing that from €200,000 to, for example, €100,000 being at risk of having inadequate income in retirement. These are people near the very top of the income distribution, both in retirement and through their working lives.

I take the Deputy's point about the importance of having stability in the pensions and tax system and, from that point of view, the Commission on Pensions is very welcome and, hopefully, will set out a roadmap there will be consensus around and that maybe we can move towards. To follow up on the last part of the Deputy's question, we can do this in a way which ensures there is the prospect of a pension for those of us who might be retiring somewhat later than is the case now, in the later decades of the 21st century. We have a pay-as-you-go pension system. It is not pre-funded and it comes out of the State Exchequer. There is a real issue in regard to intergenerational inequality and this is something I have published research on at the ESRI. We are already in a position where many young adults are experiencing lower wage growth than their parents would have, and there is a real issue, particularly when this is combined with the issue of housing, about ensuring there is intergenerational fairness, as well as fairness across other dimensions. The issue the Deputy raises about ensuring a sustainable pension system is important in terms of addressing those intergenerational inequalities as well.

Deputy Richard Boyd Barrett: I thank the witnesses from the ESRI and Dr. Collins. I warmly welcome and support pretty much everything they said. I have long advocated for some of the things for which the witnesses are advocating. Tax expenditures are a shadow budget. They constitute a pretty vast realm of public money that is being spent every year and is not scrutinised in any serious way. For much of the time, we do not know what we are getting for it and whether it is beneficial spending. Deputy Durkan is right to be concerned about pensioners. A total of €2.7 billion is going on pension tax reliefs. Is it better that we have this hidden subsidy for pensioners, which I argue and I think our contributors have argued overwhelmingly benefits some of the wealthiest earners and pensioners, or would it better to stop those reliefs and double the State pension? That is putting it in a slightly extreme form but I broadly favour that. If we double the State pension, we would do a lot more to address pensioner poverty and would also have a much clearer view of the money that is being spent on pensioners and who it is benefiting. It would overwhelmingly benefit the vast majority of pensioners as opposed to a tax relief system of subsidising pensions that tends to benefit the highest earners and the best-off pensioners. I would be interested in hearing the views of the witnesses but this is implicit in what they have said. This is the debate. I do not know who said at a previous meeting of this committee that dealt with this issue that, broadly speaking, direct expenditures as against tax relief-type expenditure tend to be more effective in delivering results in terms of providing particular services or for particular needs in society.

I have a particular interest in film tax relief, which amounts to €70 million to €80 million in tax relief. Do any of the witnesses have an opinion on this? This is an odd tax relief because they get cash upfront. Most of the people who get this corporate tax relief have never made a profit. In fact, the way it is designed means that it is in the interests of the producers who get it to never make a profit. It is a fascinating area. I am also very curious. We are told that the beneficiaries of the corporate tax credit are getting between €10 million and €30 million. I do not understand how we cannot know whether they are getting €10 million or €30 million. It is pretty bizarre. What is it achieving for us? A tax relief of this sort is about trying to build up a film industry on scale and create good employment. In fact, the film tax relief is specifically linked in the legislation to creating quality employment and training but there is no checking of whether this is being delivered. Almost nobody has a job in the film industry. A tiny number of people - possibly 100 - have jobs. They are like the dockers back at the beginning of the 19th century in that they are turning up and hoping they might be employed on a particular project. It is a 19th-century Dickensian situation, yet we are paying out €70 million or €80 million in this context. I would like to hear what our contributors have to say regarding this issue. My perspective is we should be studying this situation and asking if that money would be better used by being paid out to create a film industry via direct expenditure instead of by means of a tax relief afforded to a group of film producers. We should evaluate that possibility.

I welcome the suggestion that the Irish Government Economic and Evaluation Service, IGEES, create a tax expenditure section to evaluate this aspect. That service has done some good work in evaluating the relative merits of money being paid out through the housing assistance payment, HAP, and rental accommodation scheme, RAS, programmes compared with money going directly into investment in public housing. The conclusions in that regard speak for themselves. IGEES evaluated that expenditure and concluded that it would be far better for us to build our own public housing than to continue with these expenditures. I have long thought we should have an evaluation of what I see as a shadow budget and proper scrutiny of that spending. I agree strongly with the recommendations in that regard.

I would like our contributors to comment on another point. They have not focused a great deal in their submission on corporation tax expenditures. To what extent are those expenditures included in the figure of €15 billion concerning tax expenditures? The witnesses are separating out structural expenditures, as they call them, or part of the base, from discretionary expenditures. How do corporation tax expenditures fit into that context? In broad terms, pre-tax, the gross profits of corporations are running at about €180 billion. Those profits have doubled over the past ten years, but only €90 billion of them, roughly half the total figure, is subject to tax.

The taxable profits of corporations are halved by tax reliefs.

How much money, then, is going abegging in that regard? The effective rate of corporation tax works out at 5% rather than 12.5% if we base this calculation on gross pre-tax profits. If the minimum effective corporation tax rate were 12.5% instead, then €7 billion to €9 billion more in tax could be collected. I am interested in hearing witnesses' thoughts on that area. The implication being suggested regarding income tax seems to be there should be a minimum effective income tax rate because the system we have is not capturing some of the reliefs benefiting higher earners. Do the witnesses hold the same view regarding corporation tax and a similar need for a minimum effective corporation tax rate?

Dr. Micheál Collins: We are both enthusiastic to address this issue. I will come in briefly. I thank the Deputy for his questions. Yes, the phrase "shadow budget" is a good one and it is worth thinking about these issues in that context. These decisions that are announced concern tax we deem we should not collect. It is not as easy to see and identify those potential tax revenues because they are not coming in, but it is revenue the State could potentially collect. It fits well within the context of the remit of a Committee on Budgetary Oversight like this one. Therefore, I reiterate how welcome and important it is the committee has retained a focus on this issue. It is very useful.

The questions being asked by Deputies Boyd Barrett, Durkan and others raise the expectation the Revenue Commissioners, the Department of Finance and others will provide the information that can make discussions in this regard considerably more informed than they have been previously. At least with income taxes, it is necessary to have such taxes available and paid to offset some of the reliefs in place. In and of themselves, therefore, they are skewed up the income distribution and availed of by individuals who are relatively higher earners in society.

The point made by the Deputy regarding direct expenditure is important. The reality is if we were spending the same amount of resources in the form of direct expenditure, such expenditure would get considerably greater oversight from this committee. I do not mean to underplay the excellent work the committee is doing but it would simply be more visible in the budgetary documentation and the public expenditure plans from the Department of Public Expenditure and Reform and elsewhere. It is the visibility of these measures that makes it very difficult for them to be thoroughly understood and for the very difficult questions around them to be asked and answered. Therefore, the more information on them, the better. The film relief is a good example of that. A number of people would be very strongly in favour of the film relief and others would argue the other side. It would be good to have the information available on how the resources are being used, to whom they are flowing and the alternative use of those same resources because ultimately the State is expending here. It could expend directly by spending the money in a particular Department, and the committee could hear from representatives of the Department in question on that, or it could do it through the tax system by deciding not to collect particular resources. That throws up opportunity cost questions about what else could happen and how else those resources could be used. The more information we have on that, the better.

On the corporate tax issue, there is an interesting contrast whereby we have a minimum effective tax rate for high earners but have resisted that for a long time for corporates, although that is now changing quite dramatically. Looking at the structure of tax expenditure, the area that is hardest to understand and where it is hardest to know what is going on is capital allowances. These are the allowances that companies, be they enormous or small, can use to offset assets and write down their tax bills. I have no doubt that within that there is a mixture of legitimate activity and activity about which we could ask questions. In the tax expenditure world, that is a very big black hole and it is deserving of attention.

Dr. Barra Roantree: As we have highlighted in our report, there is already a potential over-reliance on corporation tax revenues. One of the issues with this is that many corporations, particularly foreign multinationals, are very mobile and responsive to tax treatment so that creates a risk. Even in the event that we do not change anything, if the US Government changes something, those companies might change their structure and that might significantly impact on our corporation tax receipts. I would, therefore, caution about thinking we could or should be getting an extra €6 billion or €7 billion if we changed the allowances. It is likely that a lot of the profit to which the allowances relate is highly mobile. I am not sure we should necessarily be looking at that and saying we could be raising additional money from corporation taxes because we are already over-reliant on them, especially relative to other countries. That is one note of caution I would apply to some of those discussions.

As regards pensions tax, we are on the same page as Dr. Collins about the tax-free lump sum being a very poorly targeted form of tax relief. We have gone into detail and talked about that so I think we are on the same page. However, we differ quite a bit on the overall system of tax relief. I have argued previously, and quite strongly, in favour of a system broadly along the lines of what we have, whereby people defer the tax they pay at the moment. They make pension contributions in their pre-tax income and then pay tax when it is drawn down. That is a broadly sensible system. In the literature it is called an exempt-exempt-taxable, or EET, system. That has a lot to recommend it. If operated properly, it should be neutral between consuming today and consuming into the future. From that point of view, economists would say it has a lot to recommend it and it is a coherent benchmark system to have in place.

Our system involves a number of departures from that and that is where we could find more common ground. People never end up paying PRSI on income that is saved in the form of a pension. If they have a pension accumulating, because they do not pay PRSI after they retire, PRSI is never charged on a pension. That is a gap in the system. One issue I would raise is the often proposed idea of restricting relief to a standard or blended rate on pension contributions. An issue with that is how to treat defined benefit pensions. People do not pay into a pension pot from a defined benefit pension. The pension is stored up and the person will get income from it in future. We know these are the most generous type of pensions in operation today and they are primarily public sector in nature. There is an issue there from the point of view of possibly moving to a blended relief-type structure or restricting relief to the basic rate. In essence, that would be imposing greater tax on those with mostly defined contribution private sector pensions, whereas those in receipt of public sector pensions will still avail of that geometry. It is very hard to price what the contribution to a defined benefit pension is if relief is not going to be applied at the marginal rate, which is essentially what we are doing at the moment.

I have raised a number of issues. I will be happy to send the committee some materials. We made a submission to the interdepartmental group on the taxation of pensions which sets out some of these points. There are a number of tricky issues but there is considerable common ground as regards the tax-free lump sum being far too generous at the moment.

Deputy Seán Canney: I thank the witnesses for their opening remarks and their plain speaking on the issues under discussion. I will make a number of comments on which I ask for responses. We are in the throes of passing the Climate Action and Low Carbon Development (Amendment) Bill. One of my concerns relates to the budget for climate action. How will we replace the €3.5 billion we raise every year in fuel taxes? I think motor tax brings in approximately €1 billion per annum, giving a total of €4.5 billion. If we give incentives to people to switch from fossil fuel to electric vehicles, how will we bridge the gap?

Succession rights and capital gains tax were also raised. These issues are very pertinent to farming, especially family farms. The idea that a son or daughter inheriting the family farm is inheriting an asset that will generate huge income is long gone. Given the income from farming, the son or daughter may be taking on a liability rather than an asset at times. We can see the number of young people getting involved in farming is reducing year on year, not just in Ireland but across the European Union. For this reason, I have serious concerns about capital gains changes for farming and small business in rural towns and villages where people are passing down a business they are making a living from, and nothing more. They are not storing up a large amount of savings.

It is interesting to note the comment by one of the speakers that increasing the amount of corporation tax does not necessarily mean you will get, *pro rata,* the same return from that. By increasing tax, you may end up with less money because the money is not available to be taxed because it is in some other haven where it will not be taxed. That is important.

Returning to what Deputy Durkan said about pensions, people entering a private pension scheme have an expectation about what will happen over the life of their pension, what they will be able to do with it and what benefits they will be able to draw from it. When changes are subsequently made to the tax treatment of a scheme, it breaches the expectations of the pension holder who may have entered the private pension scheme in his or her 30s. The idea of deferred tax is good but when people are trying to create a retirement fund with which to support their families, we should not introduce draconian measures halfway or three quarters of the way through. We cannot have a person finding out that the rules of engagement have changed within six months of his or her retirement. People may act differently if they know what the rules will be at the end. After all the contributions that have been made, I am concerned by the fact we are talking about the latest information we have when some of it goes back to 2014, 2015 or 2016. We are effectively giving out more than €15 billion in tax expenditure and we should have an annual report on it. We must get to the stage where each year, as part of the budget process, we see the returns or costs for tax expenditure and in which section these occurred. If there is a review every ten years, there can be many changes and such changes happen in our modern world over ten years. Going back to 2014, which is seven years ago, it was a different economy and a different world. Are we getting in more money or what were the costs last year compared with 2014? It is a major concern I have in reporting. It is a budgetary oversight committee and the key is that in the year following the financial year, there should be a report on the tax expenditure and the costs to the State. We must get to that stage. It may not happen overnight but we must be able to do that, especially when we see the major figures for costs. Perhaps much of this tax expenditure is investment in our future or succession rights for businesses, for example.

Dr. Barra Roantree: I will speak to the matters I raised specifically. I agree with the Deputy on the importance of stability for the pensions tax system and that people make these decisions with the long run in mind. It is important we do not chop and change the system every year or two. That is incredibly important. However, it cannot be an argument that we never change the system, particularly given there are so many issues with it currently. I agree that we should not go about doing this every year but we should try to set out a long-term vision for the pension system and move towards it. We should have a set of reforms so nobody will be surprised on getting to retirement because he or she sees something different. I agree with those kinds of statements.

On the question of motor tax, which I raised and to which the Deputy responded, I might defer in a moment to my colleague, Dr. Kakoulidou, on some of the environmental tax reliefs in place. Looking at them might raise some revenue for offset.

The Deputy made a point on family farms. We tried to be quite clear and concise in how we worded our comments on this because we know it is an incredibly emotive and important matter in so many areas of the country. I suppose this is not about small family farms or businesses being inherited. With capital acquisitions tax, the way this business and agricultural relief operates is that the value of the asset for the purposes of inheritance is written down by 90%. There is no cap on that. Combined with the €325,000 threshold for class A transfers - a person inheriting a family farm business from a father or mother - it is possible for multimillion euro businesses not to pay any capital acquisitions tax. Our point is merely that if the intention is explicit when the reviews are made to support succession within small family farms and businesses, it is not well targeted at doing that. It is all we are saying.

We can see there is a very clear and coherent policy rationale to encourage that succession but the point is that most of the benefit of this very expensive tax relief, at €360 million per year in 2019, as we have up-to-date information on that, is not going to small family farms and business. It is instead going to very large businesses. That is what we are drawing attention to rather than the validity of succession in general. I agree with the Deputy that it is incredibly important for so many areas of the country, such as my own in west Wicklow, where I grew up. I needed to clarify that as we do not want the wrong perception to come across from the matter being raised.

Dr. Kakoulidou might speak to the environmental tax reliefs.

Dr. Theano Kakoulidou: As part of the review, we looked at how different environment reliefs contribute, mainly in tax expenditures. We saw some data from the CSO that around €2.4 billion annually is paid in subsidies for fossil fuel. The problem with this is the biggest part of that revenue is mainly from jet kerosene and it is part of the EU directive that they should be exempt from a tax bill. As far as we know, for the time being there is a discussion in the EU to re-evaluate this directive and start taxing this type of fuel. This could be a source of revenue, but only in the short term. If the environmental goals are fulfilled, all revenue from these tax expenditures will be reduced. The main point our report made is that to assign a new source of revenue for the motor tax yields that would be diminished for the year, the Government should see a broad-based statutory measure. It will be very difficult to raise significant extra sums of revenue without increasing one of the four main taxes: income tax rates; the universal social charge; pay related social insurance, PRSI; or value added tax, VAT. It will be very difficult to find another source of revenue that will give the same amount of revenue.

Deputy Aindrias Moynihan: Gabhaim buíochas as an gcur i láthair. I have been learning a great deal from listening to the earlier discussion. I am glad the points on inheritance tax and the concept of the upper limit have been clarified. Is there a view on the lower threshold available there? House prices have increased a good bit since those thresholds for the A,B and C bands were set a number of years ago. I am interested to know if there is a view on that.

On pensions, the witnesses touched on a bugbear of mine, which is the single pensioner. It is possible this person would have been part of a couple, but unfortunately when he or she is then a single person and down to one income, many of the same overheads are there. How could that be addressed? There is a particular vulnerability there for the single pensioner.

Dr. Barra Roantree: I will address the second point first. It is a very important issue and recent ESRI research has been pointing towards the issue. On average, pensioners have lower rates of poverty than other ages groups but there is an issue with those who live alone and who are the single pensioners. We published a report a few months ago that showed that, at the turn of the millennium, almost one in two pensioners were in poverty and it was only the sustained policy action over the 2000s in increasing the State pension that brought the figure down to where they are the age group with the lowest poverty levels.

With regard to the policies that are well targeted towards the cohort of single pensioners the Deputy is worried about, the living alone allowance is a very effective means of giving income to those people. The Government has increased the living alone allowance in budgets in recent years. This was explicitly linked to some of the ESRI research that was done highlighting that. The instrument on the adequacy of pension levels is, ultimately, a matter for political decision. There may be a need to look at it. I believe that the Pensions Commission is looking at the issue of balance between a pensioner who lives on his or her own and a pensioner who is part of a couple.

On the capital acquisitions-----

Deputy Aindrias Moynihan: You could add a euro or two to the living alone allowance but is the commission really looking at trebling or quadrupling it? Would there be a ballpark or a direction the ESRI could see that going in?

Dr. Barra Roantree: We are hoping to do some more research looking at that but every euro added onto it is quite effective at reducing the number of pensioners who are at greater risk of poverty and inadequate income in retirement. Again, the appropriate living standards deemed adequate for different age groups is really a political issue and one I do not believe the ESRI can come in on. We can say, however, that increasing the living alone allowance will do a lot to reduce poverty among pensioners. That is far as we can go without stepping into the normative realm.

In terms of capital acquisitions tax, inheritance tax, and houses, which the Deputy mentioned, we highlight in our report that the average liability for a group A payer, that is, from a parent to a child, in 2019 was almost €86,000. This implies that the average group A taxpayer received almost €600,000 worth of inheritance or gifts from his or her parents over his or her lifetime. The first important point to note is that most people who pay inheritance tax or capital acquisitions tax in Ireland receive a large amount of inheritance. It is a lot larger than most people know about. To the extent to which those bands and thresholds are raised, most of that gain goes towards those people who receive a huge amount of inheritance. From that point of view, it is not a well-targeted measure towards those whom the Deputy might be worried about who are receiving a home in the context of increased house prices.

People often compare the €325,000 threshold with the average value of a home in Dublin and say it is less than that amount. This is a per-person threshold. Inheritance tax in Ireland is broadly well designed. It is based on the person receiving the gift rather than the estate giving them. From that point of view, it is an infinitely better system than that which operates in the UK, for example, where it is incredibly easy to avoid inheritance tax. If a person transfers gifts seven years before he or she dies, no tax is paid. From that point of view, our system is well designed. The threshold is on a per-person basis. Unless a person is a single child inheriting a house, it is unlikely that he or she is will pay capital acquisitions tax on that. For example, if a family has a house worth €900,000 and they have three children among whom they spilt it equally, none of those children will pay capital acquisitions tax. The extent of the issue is often overplayed. I am not sure it is taken into account that when people pass on an estate, it is usually to multiple beneficiaries. From that point of view, it is overplayed somewhat.

Deputy Patricia Ryan: I thank Dr. Collins, Dr. Roantree and Dr. Kakoulidou. I will ask two consecutive questions first because I am aware of my time. I am concerned because in the ESRI's budget perspectives paper, reference was made to changes in capital gains taxes for older people. As Sinn Féin's spokesperson for older people, I am interested to hear about the practicalities of this proposal. If the witnesses would outline in layman's terms, or laywoman's terms, for that matter, how this might work, I would appreciate that.

I am interested in our guests' opinion on the provision of basic income, in general and specifically for older people. In my office, we deal with many people who battle red tape when trying to access a sufficient contributory pension. They struggle to prove their working record before 1980 due to the scant records that are available. I am also interested to know how the witnesses think we could pay for a basic income and whether it should apply universally or to just certain sections of society.

Dr. Barra Roantree: I think the issue the Deputy raised was some of the options that are looked at in our report relating to retirement relief, which is a relief from capital gains tax, CGT. This is a similar relief to capital acquisitions tax - agricultural and business relief are mentioned - in that the intention is to benefit small businesses, but how the retirement relief operates is a big giveaway to those who are disposing of their businesses, and those businesses tend to be larger ones. The point to be taken from this is that it is not particularly well targeted.

We also raised the matter, and maybe this is what the Deputy was getting at, of relief from CGT at death. When a person who accumulates assets passes on, CGT is relieved at death and is not levied. We make the point, in this and in other work, that this system encourages individuals to hold on through retirement to a second home they might own and which they would like to bequest that to a child, because then CGT is relieved and they can pass on to that child an asset that might be worth more. This draws on work that I and my colleagues, Anne Nolan and Keelan Beirne, did on this issue. It essentially creates a situation where elderly people who are quite well-off in terms of their assets - I am not referring to their main home; it could be shares or a second home - are incentivised by the tax system to hold on to the asset until they die, rather than selling it off and using those proceeds to have a better standard of living in retirement. That is the point we are getting at with regard to the relief at death.

There is also an interaction with the fair deal scheme which, in a way, goes in the opposite direction in the sense that if one thinks one will go into the fair deal scheme, one will want to get rid of one's assets at least six years before one enters the scheme. There is a big issue in this regard and we have hinted at it in some of our previous work. The fair deal scheme does not sit very evenly with the broadly well-designed system of capital acquisitions tax on which I responded to the questions of Deputy Aindrias Moynihan. Whereas the system of capital acquisitions tax is based on how much one inherits over one's lifetime, which is a good and sensible way of doing things and is certainly much better than the British system, the fair deal scheme operates in such a way that, essentially, the charge applies on assets that are held or have been disposed of within the past six years. This creates an incentive for people who, in the words of John Kay and Mervyn King in respect of the British system, are healthy, wealthy and well advised to just get rid of their assets to their kids earlier. There is an issue there in terms of the design of the fair deal scheme and how it sits with the capital acquisitions tax system. I hope that helps the Deputy on those issues.

I will say a few words on the broader issue of basic income. I know Dr. Collins has many views on it, not all of which align with mine. One point I will make on basic income is that it is often quite difficult to know to what people are referring in that regard. It can refer to a broad range of schemes and cover a significant range of things. If we are to have, essentially, a payment which distinguishes on the basis of need, that is, it pays more to people with a disability, elderly people or those who are out of work, then I am not sure it is very different to the current welfare system. Once one starts incorporating those differential needs across the population, one ends up at a better-designed welfare system that may integrate the various benefits that are currently available. There can be significant issues for people who have to claim different benefits from different agencies or as they move in and out of work. In a way, universal basic income could just be seen as a way of resolving those anomalies in the system and having a more integrated tax and welfare system. From that point of view, there is a lot to recommend that kind of line. However, we will need to retain differentiated payments for different needs and, from that point of view, I do not see much benefit in a payment that does not recognise the differential needs across the population.

Dr. Micheál Collins: I will briefly come in on those points. The issue raised by the Deputy with regard to basic income sort of chimes with the remarks.of Deputy Aindrias Moynihan. Both Deputies' questions relate to the welfare system and its effectiveness. Ultimately, in terms of the living standards of the vast majority of people we are discussing, it is the welfare system rather than the tax system, and certainly rather than the tax breaks in the tax system, that has the significant impact on the living standards of individuals, echoing the two issues raised by the Deputy.

Overall, that speaks to a point around the distributive profile of many of these tax breaks; that is, to whom does the benefit flow. It comes back to the point raised by Deputy Canney that the more information we have on such issues and the greater clarity that is available to the committee and others, the more we can think about whether they are good outcomes or there are better ways through which those resources could be targeted and used. It is not unusual for those involved in these discussions, particularly public representatives in the context of pensions and so on, to know from their own work that the action in terms of living standards is through the welfare system and through supporting individuals.

On the broader basic income issue, one of the great problems we have had - it is beginning to change slowly and Covid-19 has helped - is that we have separate taxation and welfare systems. Deputies will know from dealing with constituents that in people's lives they work together and come together to provide the living standards for people and families. Administratively, they have been separate. The closer they come to each other, the better because it is from the two systems operating simultaneously that the living standards of people are derived. There is strong merit in further integrating the taxation and social welfare systems. The combination of these systems leads to the living standards of individuals but, administratively, they are structured differently. The Department of Social Protection does one thing and the Revenue Commissioners and the Department of Finance do something else. In reality they come together for individuals and their living standards. The more integrated those systems are, the better the policy system will be at responding to the needs of individuals.

Ultimately, much of what committee members are pointing at relates to issues around welfare rather than taxation. I suppose it comes back to the point that we can realistically expect that a large chunk of the current taxation flowing into the Department of Finance every year will not be flowing in the years to come. It will take some time for the corporate tax issues to change and it will take some time for the environment-related taxes to change. Change they will and, as they do so, it will throw up interesting questions about how we use our current resources and where we may raise additional resources from. That points to tax expenditure questions being more pronounced and interesting. I would have thought that, as both of us have indicated, there is potential for changes which would simultaneously enhance revenue and fairness.

Deputy Patricia Ryan: My thanks to Dr. Collins. I appreciate the answers.

Vice Chairman: We have some additional time. Deputy Boyd Barrett has his hand raised in anticipation. I might ask for people to indicate online. Deputy Durkan has also indicated by raising his hand physically rather than online. I will take him second. Deputy Boyd Barrett, you make take the additional five minutes.

Deputy Richard Boyd Barrett: I will not even take that because I have to go to the Business Committee now. My thanks to our contributors. This is such an important topic and I am pleased that we are starting to make it an issue.

One particular suggestion which came from Dr. Collins was about how we up the scrutiny on tax expenditure so that these measures start to be taken as seriously and scrutinised as intensely as the direct expenditures we have in the budget. A related issue is what our role might be in that regard on this committee.

Dr. Collins suggested that we take a theme. Will he elaborate on that point? Does he mean that we take a particular expenditure and look at it as an example and work our way through year by year and one by one? What does Dr. Collins mean by a theme? Personally, I favour taking a cross-section each year with two or three types of reliefs to bury in to. Obviously, we cannot do all 85 in any given year, although that would be useful, as Dr. Collins suggested. Perhaps he could amplify the point. Perhaps it was Dr. Roantree who said that along with the tax strategy papers we would have a more detailed budget book on tax expenditures, what they are, who they are going to and an analysis of each tax expenditure. For the benefit for the practical outworking of this discussion for our committee and for the budgetary process, perhaps the witnesses could elaborate on those points briefly.

Dr. Micheál Collins: I am happy to come in on this. I strongly encourage Deputy Boyd Barrett and his colleagues to engage further on this and I am delighted to hear him explore it. There is a long list of tax expenditures and they are complex. It raises a question as to how we can assure we can do it without getting buried in it. It is such a big area it could possibly overcrowd the work of the committee. My thinking on the suggestion is that we can categorise tax expenditure into various themes. As we have gone through this today, we have spoken about those related to cultural aspects, corporate aspects and savings in various ways. There might be merit in doing this because agriculture is similar. They begin to sit next to each other and we can see the coherence across them. I acknowledge it is frustrating because one ends up looking at one area conscious that there are a number of others. If members were to proceed down such a route, it would put down a marker that over time each of these would be examined by the Committee on Budgetary Oversight. In a sense, this would increase overall the level of expected scrutiny and actual scrutiny of the expenditure.

There is merit in examining new and recurring issues. Dr. Roantree may wish to speak about it more and about the suggestion the ESRI include in its proposal to the committee of getting the annual reviews that are ongoing from the Department of Finance published in time for the committee to consider them, rather than dropping them with the budget documentation which, as committee members will be aware, is substantial and all arrives in two minutes flat after the Minister sits down having delivered the budget every year. There is a better way to do it. This would also help with the deliberations. Of course, if the Department of Finance can produce such reports, it can produce many other similar reports the committee could look at, request and include in its annual reviews of these areas.

Dr. Barra Roantree: The tax strategy group papers that come out in autumn each year are like tax nerd Christmas. It is an exciting time in our lives when we can go through all of them. Some useful information is included in these papers with regard to setting out an intention of what the Government is looking at. It is useful for scrutiny purposes that they are put out there well in advance of the budget so we can have a discussion in the Houses of the Oireachtas and so we in society have time to scrutinise, consider and think about them. From this point of view, it would be welcome if the tax expenditure evaluation papers came out over the summer and autumn prior to the budget. It is important to commend the Department of Finance on putting out the tax strategy group papers so early. It was a great decision and it has improved the quality of debate on this quite a lot.

There is another specific suggestion the committee might take up. As Dr. Collins said, these tax expenditures are complex and doing a rigorous evaluation is also incredibly complex and difficult and we should not lose sight of this. However, this is a case in and of itself for building up capacity and expertise to be able to deal with these issues. From this point of view, perhaps we could have a dedicated tax expenditure evaluation unit within the Irish Government Economic and Evaluation Service. Perhaps it might be better somewhere else. This is the type of thing we should look at to ensure these evaluations are as good as they can be. I reiterate that far too often they ask beneficiaries of reliefs whether a relief should continue. There is no surprise as to what the answer to this often is.

Deputy Richard Boyd Barrett: I thank the witnesses. I apologise because I have to leave but this has been a great session. I thank the them for their contributions.

Deputy Bernard J. Durkan: I want to mention pension lump sums and anticipation on the part of the contributors. In a different incarnation I was Minister of State at the Department of Social Welfare and had responsibility for dealing with the fallout in respect of cases where anticipated gains from lump sums did not materialise. What I want to mention and for everybody dealing with this issue to keep in mind is that very often people run into difficult times in mid-life during their careers. They may struggle greatly to continue to meet contributions and, in some cases, may have spent the lump sum or part thereof in the run-up to their retirement, for whatever reason. I can recall vividly several cases involving people who found themselves in desperate situations having been told they were going to inherit an asset at whatever age they retired but it suddenly transpired it was not there. It was a fresh air shot and it does not work. I would advise serious caution in dealing with that area. I already mentioned dealing with the confusion.

I refer to defined benefits and defined contributions. I have had many struggles through the years with regard to those schemes. People were being sold products on the market in the belief that a sum would accrue to them at age 65 or whatever the case may be. These were Government-introduced stabilisers, for want of a better word, that prevented the people from getting access to what they considered to be their full entitlement, leading to serious anger, annoyance and disappointment, usually among people who were at an age when they could ill-cater for it or deal with it. Some cases ended tragically. To what extent have our guests pondered these issues and their potential to make life very difficult for the pensioners who have worked all their lives? I refer to the principle of these people having worked all their lives. They will say readily they have done so, made significant sacrifices and done everything they were asked to do but, at the end of the day, the only thing coming to them is a punishment, as they see it. That is a dangerous place to go. Politically, it is a very dangerous place to go. Have our guests considered those issues and their implications for the workforce? I am not talking about millionaires; I am talking about people who make a contribution and have a contributory pension.

Incidentally, going back to when I was Minister of State, there was a situation relating to the ordinary social welfare pension at the time whereby those who did not have an average of more than 22 contributions per annum over their working life did not qualify for a contributory pension at all. My view at the time was that was unconstitutional. The system indicates there has to be a break-off point. There may well have to be a break-off point but it has to be on a sound constitutional basis and that was not the case. We changed that and introduced a system that was proportionate to the contributions. That is a principle that would stand up in any court and should be borne in mind in the context of all pensions handled by the State.

Dr. Barra Roantree: In short, "Yes", I certainly have considered many of these issues, as, I am sure, has Dr. Collins. I stress that neither of us are suggesting getting rid of a tax-free lump sum of €200,000 entirely; we are suggesting that consideration be given to restricting it. The people who would be affected are not far off being millionaires in terms of the value of the pension fund one would need to have for the €200,000 limit to be binding. For example, on a defined contribution pension, you can take out a maximum of 25% of that. We are talking about the €200,000 limit-----

Deputy Bernard J. Durkan: May I interrupt briefly? You can become a millionaire by virtue of housing inflation in a very short time and-----

Dr. Barra Roantree: This is in terms of your pension pot and-----

Deputy Bernard J. Durkan: I know that, but you can be a millionaire in terms of the value of your house. If our guests were listening to the news this morning, they may have heard it mentioned that a modest house in the Rathmines region is on sale for €1 million-plus. That is an indication of how these things can and do change, which can put the taxpayer in a very difficult position at a time when he or she may be least capable of dealing with it.

Dr. Barra Roantree: Indeed. Again, for the €200,000 limit on the tax-free lump sum to be binding, one needs a very generous defined benefit pension based on a high salary. Most such cases would involve high-paid public sector jobs by virtue of who has a defined benefit pension and who does not and by virtue of the fact that one needs substantial accruals to get a very large lump sum. Otherwise, you need a defined contribution pension pot amounting to hundreds of thousands. Very few individuals are in that position. We are talking about the top of the distribution. While I am sure that, as Deputy Durkan says, there are cases in which these people have borrowed on that basis, we are talking about a substantial tax expenditure. It was in excess of €100 million in 2014, the most recent year for which we have figures available, and I imagine it is substantially in excess of that figure now, given increases in pay, pensions and equity since then.

What Deputy Durkan says does not mean that, because something has been set, we can never change it again. As I have said throughout this session, however, he raises an important point about the importance of stability in the pensions tax system in that we should not be chopping and changing from year to year, that we should have an overarching strategy and a view of how that system works, and that we should try to stick to that insofar as possible. I do not accept, however, that the people who would be excepted from reducing that tax-free lump sum, even from €200,000 to €100,000, could not be considered well off. These are people with very substantial pension pots or very generous defined benefit pensions. That is important to bear in mind when we talk about these things. We are not talking about people who are at or near the poverty line. That is where the welfare system comes in. In part, these things are related. We are talking about ways to ensure we have money to pay for the State pension in the future. From that point of view it is important to be clear about who we are talking about being affected by these types of measures.

Dr. Micheál Collins: I will come in briefly on all that if I may. I have two things to say. With any of these tax expenditure measures, whether pensions, film reliefs, the corporate changes or whatever else, transition is always important. There is always a need to facilitate and allow a transition as you move from one system to another. In fairness to the Revenue Commissioners and others, we in Ireland tend to be quite good at doing that, and that is the right way to proceed.

As for pensions specifically, this comes back to a point Deputy Canney raised earlier, which was the frustration of not having up-to-date figures and information. I think this would be a much easier conversation for all of us if we were able to see, and if the Revenue Commissioners were able to provide, a more detailed breakdown of how this tax expenditure is distributed. In and of itself, the structure is such that there are very substantial benefits arising to very small groups of individuals with very large pensions. That is why it is very important we do not just remove the tax-free lump sum. The vast majority of the people Deputy Durkan has mentioned and those he and his colleagues have met in their careers will be looking at lump sums much smaller than €200,000. However, those lump sums will of course be very important to their standard of living and to their well-being, and many of those people will expect the lump sums to be an important part of their lives and living standards. It is about protecting that and thinking about how we distribute these State resources fairly rather than undermining the well-being of the vast majority of people, which is not what it is intended to do.

Deputy Patricia Ryan: I will be as brief as possible. I read with interest Dr. Roantree's article in *The Irish Times* last month in which he wrote that an approach similar to that used to combat pension poverty in 1990 is needed to help millennials. I am interested in hearing how he and our other guests feel this can best be done. Also, how can we address pension poverty, which, unfortunately, is slowly but surely returning?

Dr. Barra Roantree: The Deputy is absolutely right that there is a risk that pension poverty rises again if the State pension does not keep track with the broader living standards of the population. We are at the point where we may be starting to see pension poverty creep back up again for certain groups of pensioners. The point I was making in the article in *The Irish Times* to which Deputy Ryan referred was just how phenomenal an achievement it was that, as a country and a society, over the 2000s almost one in two pensioners was below the poverty line but that that decreased to less than 10% over the course of a decade. The reason for that was a political commitment to the living standards of pensioners, and the policy instrument that was used to fulfil that was increases in the State pension. It rose over that period by, I think, 50% in real terms, after accounting for inflation, so substantial increases in the State pension were made over the 2000s and they were remarkably effective in not entirely eradicating but certainly massively reducing pension poverty.

Again, the point I was making in the article was that there is now a huge issue with the living standards of younger adults, particularly those who have emerged from education in the face of the financial crisis and the recession that followed it and now Covid. If we want to address that, and that, ultimately, is a political decision, we need the political commitment to do so. There are ways to address it. We need sustained action on housing, which is a completely different conversation and one to which my colleagues in the ESRI have contributed fulsomely. We also need to be sure that, as we emerge from the pandemic, the supports are in place for younger adults to retrain, if necessary, into the jobs that will be there. Also, younger adults need to be supported with their incomes and living standards as we emerge from this pandemic because they are the ones who have been worst hit by the labour market impacts of the pandemic.

Dr. Micheál Collins: If I may briefly come in on that point, the lesson from the late 1990s into the 2000s, and in fact over recent years as well, is that if you increase welfare payments which are targeted not only at older people but also at those who in various other ways are dependent on welfare, that feeds across to very substantial outcomes in the form of decreases in poverty and in inequality. We have, in historical terms at least, much lower levels of poverty and inequality at the moment. The reason we do is that we have had notable increases in welfare payments over recent years - not every year, and they have stopped, as the Deputy will be well aware. Nonetheless there were increases, including some targeted increases. It comes down to what we want to do as a society and what objectives we want to pursue. That is where the tax expenditure issue fits in as well. In a sense, these are resources and we can allocate them in different ways through the welfare system and the taxation system. It is about having visibility of them and their outcomes. That is important for the Deputy and her colleagues as they make decisions on the allocation of the State's resources.

Dr. Barra Roantree: I forgot to mention one thing to Deputy Ryan. A report was published by my colleagues at the ESRI earlier this week which drew attention to one thing that might be especially relevant in this context and in thinking about this, namely, the level of the grant for those participating in education. There is a parallel there in how in the 1990s the State pension was neglected and fell behind the level of wider living standards. The same has been the case for quite a long time for the grant available to students participating in education. It has fallen significantly behind. I think that was one anomaly to which the ESRI drew attention in its report on this released on Monday. The report also referred to the levels of jobseeker's payments for younger adults. Those are two things that follow up on and link into what Dr. Collins was talking about.

Vice Chairman: I am conscious we have only a few minutes left before we reach the two-hour time limit, which we have to adhere to because of public health advice. I will ask briefly about the special assignee relief programme, SARP, the recent review and the justification given by Indecon to extend it. Will the witnesses briefly outline their views on that? Then we will make sure we finish by 11.30 a.m.

Dr. Micheál Collins: I am very happy to do that. SARP is a particularly interesting tax relief. It is quite expensive and targeted very much at a very small group of individuals. I was quite struck when I sat down and crunched the numbers on it to see that the average recipient is on an income of €313,000. There is an argument that these are good jobs, which we should bring in because they deliver long-term benefits for the State but that argument could be made in various different ways for almost every job in the State. One can construct an argument around that. One has to stand back and ask whether this is a good use of resources, given the resources that are available, or whether they should be put somewhere else. A report carried out by Indecon examined the issue. There was a brief cost-benefit analysis at the tail end of that report, although it did not include any sensitivity testing and only limited information on the dead weight and displacement assumptions that were made. It echoes a point Dr. Roantree made earlier, which was that if one asks people who are in receipt of a tax break whether it is a good idea and whether it should be continued, one will generally get “Yes” as an answer. We need to take a slightly broader view and consider whether, overall, it is a good use of resources for society. When one looks at it, it is quite stark that it is not and that the benefits involved are quite small. I suspect there are some benefits but they are quite small and we could make better use of those resources.

Vice Chairman: Gabhaim míle buíochas le Dr. Collins as sin. I thank Dr. Collins, Dr. Roantree and Dr. Kakoulidou for their attendance and for their assistance to the committee. We had a very interesting discussion. The committee will meet in private session on Wednesday, 30 June, at 3 p.m. The committee’s next meeting in public session will be at 9.30 a.m. on Thursday, 1 July 2021, when we will meet officials from the Department of Public Expenditure and Reform to discuss capital investment.

The select committee adjourned at 11.26 a.m. until 3 p.m. on Wednesday, 30 June 2021.