

DÁIL ÉIREANN

AN ROGHCHOISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Déardaoin, 23 Meán Fómhair 2021

Thursday, 23 September 2021

Tháinig an Comhchoiste le chéile ag 2 p.m.

The Joint Committee met at 2 p.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies
Richard Boyd Barrett,
Seán Canney,
Pearse Doherty,
Bernard J. Durkan,
Mairéad Farrell,
Brian Leddin,
Aindrias Moynihan,
Ged Nash,
Patricia Ryan.

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

Pre-Budget 2022 Scrutiny (Resumed): Minister for Finance

Chairman: Today the committee will engage with the Minister for Finance to discuss pre-budget 2022 scrutiny. Members and all in attendance are asked to exercise personal responsibility in protecting themselves and others from the risk of contracting Covid-19. Members are strongly advised to practise good hand hygiene and leave at least one vacant seat between themselves and other attendees. They should also always maintain an appropriate level of social distancing during and after the meeting. Masks, preferably of medical grade, should be worn at all times during the meeting, except when speaking. I ask for members' full co-operation in this.

I welcome the Minister for Finance, Deputy Paschal Donohoe, and Mr. John McCarthy, chief economist and assistant secretary.

I know everybody has heard the notice on privilege for witnesses a million times but I must go through it again. Before we 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. The Minister is in the precincts of Leinster House so he is covered by privilege, but he is reminded of the long-standing parliamentary practice to the effect that he should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable, or otherwise engage in speech that might be regarded as damaging to the good name of the person or entity. Therefore, if his statements are potentially defamatory in regard to an identifiable person or entity, he will be directed to discontinue his remarks.

Members of the committee are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable. I remind members of the constitutional requirements that they must be physically present within the confines of the place which Parliament has chosen to sit, namely, Leinster House or the Convention Centre Dublin in order to participate in public meetings. I will not permit a member to participate where he or she is not adhering to this constitutional requirement. Therefore, any member who attempts to participate from outside the precincts will be asked to leave the meeting.

I welcome the Minister and invite him to make his opening statement.

Minister for Finance (Deputy Paschal Donohoe): I thank the committee for the opportunity to participate in the meeting this afternoon. I will make a short opening statement and I look forward to the questions from members of the committee.

Looking at where we are now, this week marked a critical moment in our public and economic health, with many people returning to their workplaces for the first time in a year and a half. In about a month from now, if everything goes according to plan, almost all of the remaining public health restrictions will be lifted. We can, therefore, be increasingly confident that, absent a vaccine-resistant variant emerging, the worst of the pandemic may well be behind us. This is very important. The past 18 months have been unbelievably difficult for all. The

disruption to family life, the pain of losing loved ones and health issues and the impact of successive, but necessary, public health restrictions hindered our normal economic and social life in an unprecedented and highly intrusive way. Throughout the pandemic it has been clear to me that the Irish people have responded with resilience. Ordinary people, business owners and especially our front-line workers have risen to the challenge in an extraordinary way. In particular, I acknowledge all those who were part of the vaccination programme. Let us be clear – the programme has been one of the most successful in the world. We owe them a huge debt of gratitude.

For the Government, it has been our job to match the success of the vaccination programme with an economic approach that has protected incomes, supported business and invested in the health service. I will make the case to the committee this afternoon that we have succeeded in doing that. To date, the Government has made a total of €48 billion available to mitigate the worst impacts of the pandemic. All of our budgetary tools have been utilised, including direct public expenditure, tax policy and below the line supports such as credit guarantees. For example, more than €17 billion has been spent on the three main income and business support schemes, the pandemic unemployment payment, the employment wage subsidy scheme and the Covid restrictions support scheme. These schemes worked. The success of these and other schemes is clear from official data. Most economic indicators are now moving in the right direction and, most important, people are returning to their jobs. For example, there were more than 480,000 of our fellow citizens on the pandemic unemployment payment in February, while today that figure is closer to 110,000.

As we enter the next stage of the pandemic, and I hope the next phase is the final one, we must move on to the next stage of our policy response. The counter-cyclical budgetary stance has served us well over the past 18 months. Such an approach should continue to serve us well in the recovery. With all economic indicators suggesting a strong recovery is in prospect, we need to be careful we do not add fuel to the fire by maintaining current expenditure, which would be at an unprecedented and unsustainably high level. This is particularly important given potential trends in inflation. Accordingly, temporary supports such as the pandemic unemployment payment are being phased out in a careful way. Similarly, employer supports such as the Covid restrictions support scheme will also come to a natural end.

While the pace of the recovery has been quicker than many expected, I fully recognise that some businesses and employees will continue to need support. This is why the Government has committed to maintaining the employment wage subsidy scheme until at least the end of the year, but this has not come cheaply.

Over the summer, we estimated a budget deficit of around €20 billion for the year. During the pandemic, borrowing costs were kept to a minimum as central banks in all major economies purchased government bonds. This looks set to continue for the next few months but, thereafter, we can expect a change to how central banks engage in financial markets. We can expect, over time, a gradual change in borrowing costs and gradual renormalisation. Only time will tell how different the new norm will be from the old, but it will be very different from where we are today. This highlights the importance of policy supporting a credible path towards fiscal sustainability, as reflected in the target of borrowing only for capital investment from 2023.

Having said that, I believe there are genuine challenges that need to be addressed. Additional public expenditure will be required to meet them. This is particularly true in respect of capital infrastructure. The forthcoming national development plan will lay out a multi-year plan for a decade, outlining expenditure of over €136 billion.

Borrowing to fund investment that raises long-term productivity which changes our future is the right thing to do, but borrowing for day-to-day expenditure is not. The latter runs the risk of changing the living standards of future generations, who have to pay for it. We are determined to minimise the debt-service burden on our children. However, the next generation will and must benefit from an improved stock of infrastructure. This is why the Government will continue to borrow for capital investment from 2023 onwards.

Let me elaborate on public debt. It is approaching a quarter of a trillion euro. To express it more meaningfully, this is the equivalent of around €50,000 per person, a figure among the highest in the developed world. At some point, the debt will either have to be paid back or, more likely, rolled over. What is likely is that it will be rolled over to a higher interest rate because we cannot expect the exceptionally low interest rates of today to last forever, nor can we base a strategy on such an expectation. We need to be aware of our obligation towards future generations. This is particularly true given our ageing population and the impending transformation of the economy away from fossil fuels.

The budgetary strategy outlined in the summer economic statement tries to get the balance right, with a total budget package of €4.7 billion. On the expenditure side, core expenditure will increase by €4.2 billion, including €1 billion for entirely new measures. The remaining €3.2 billion will allow for demographic pressures and deal with any changes to public pay. There will be a significant increase in capital expenditure of some €1.1 billion.

A further €500 million will be focused on some tax measures, and these will be outlined on budget day. The summer economic statement outlines how, over the next two budgets, temporary Covid-related spending measures will be phased out. A pathway will be provided to meet core objectives set out in the programme for Government.

In practical terms, this means the implementation of an expenditure rule whereby total expenditure is fixed at just over 5% growth per year. This is in line with the trend growth rate of the economy. The rationale for this approach is to ensure that temporary or windfall revenues are not used to finance permanent changes.

For next year, an expenditure ceiling of €88.2 billion has been fixed. A key point to note here is that the summer economic statement committed to decoupling expenditure from tax revenues that could be temporary, such as lower than assumed or higher than assumed tax revenues.

Let me be clear that managing the public finances involves trade-offs. When we consider the challenges and the options for new expenditure, we see there are only three options: raising taxes, increasing borrowing and reducing expenditure in other areas. Budget 2022 will aim to strike the right balance between these choices.

In conclusion, as is always the case in the run-up to any budget day, there will be decisions, including difficult ones, that need to be taken, but that is the role of the Government. We will take decisions against the background of improving economic health. I look forward to being able to discuss some of these issues with the committee this afternoon.

Chairman: I thank the Minister. I will now open the floor to members. I believe Deputy Durkan is first.

Deputy Bernard J. Durkan: I thank the Minister for appearing before the committee and giving us his views in the fashion he did. I compliment the Government on its handling of the

Covid era. It is not all over yet but it was very competently handled by the Government. We have to be grateful for the fact that good management made it possible to be able to assist or borrow to the extent that we did over the period in question. We must recognise that not all economies supported their citizens to the same extent as ours. For example, some countries had no emergency payments at all, with no payments for the private sector, which was disadvantaged.

While we provided supports, the challenges have not gone away. I agree entirely that it is necessary to improve public infrastructure to provide the services required for future generations. We must realise our population has increased fairly dramatically since the 1950s and it is now incumbent on everybody to provide services for the much larger population, which is to increase in the future. Housing, health, education and, more lately, climate are the challenges that have to be addressed. I strongly support work in this regard. It will be a difficult time because there are competing demands in the sense of keeping the economy on the straight and narrow path while addressing the challenges and ensuring our borrowing to make economic progress is manageable. The Minister said the borrowing to date is still within manageable proportions and that we do have an economy that is sufficiently capable and robust to come through at the end of the day.

The other point that is worth mentioning is that Covid did not come alone; it came in the immediate aftermath of the financial crash. Many people and businesses affected negatively by the financial crash still have not recovered. On top of this, we had Covid. It is worth commenting on the fact that we had the two challenges one after the other in rapid succession. Due to careful management, it has been possible to come through the storm to date relative easily.

I have two or three questions. On private savings, which is a considerable amount, how does the Minister see that affecting our economic performance into the future? It could well contribute to further inflation if not handled properly or it could be of benefit in various ways. How does the Minister see that unfolding and will be capitalised on to the benefit of the country at large? On the 12.5% corporation tax, some commentators have already pencilled the possibility of a €3.5 billion negative impact. I am not too sure about that. I think there is scope there. We had discussions on this in the past few days with the Irish Fiscal Advisory Council. The resilience of Irish business and the corporate sector in this country is still fairly solid and it may well be possible, in my humble opinion, to manage around it rather than be overwhelmed by it.

Deputy Paschal Donohoe: I thank the Deputy for the questions. I will deal with each of them in turn. On the role of private savings within our economy, it is the case that those private savings are playing a role in the purchase of homes and decisions around the purchase of large items. We may well see that come through in, for example, the VAT returns and the figures we have in regard to the purchase of vehicles. Overall, private savings are playing a big role in the successful reopening of our domestic economy. One of the reasons we are seeing a rapid fall in the pandemic unemployment payment is the reopening more quickly of domestic enterprises, with a higher level of demand than they may have anticipated. Private savings are clearly playing a role in driving that consumption. There is benefit in the ability of those savings to play a role in the growth of domestic economy, which would not be as touched by the very large multinational presence we have here, but we need to be alert to what this could mean for inflationary trends in the future and to monitor that carefully.

On corporate tax receipts, the monitoring and modelling that we have done of corporate tax receipts points to, over time, a loss of up to €2 billion in annual corporate tax revenue. It is worth saying that for some years that might not result in a direct fall, but in the rate of growth

being less than that which has happened in our recent history. This is the reason it is so important we reduce our reliance on borrowing to fund day-to-day spending and get to a point where the taxes we are collecting are paying for the public services we have at the moment. It is also the reason changes in carbon tax, which are difficult and I know can be a cause of challenge for many, are still so important in broadening our tax base. I believe that even with the change that may happen with our corporate tax revenue, we have the ability to get the health of our public finances to a safer place, particularly over the next two years. I remain confident that the Irish economy will be competitive, resilient and able to retain and grow jobs into the future.

Deputy Bernard J. Durkan: Do I have time for another question?

Chairman: The Deputy has one minute.

Deputy Bernard J. Durkan: Health, housing, education and climate have been identified as priority areas, particularly housing and health, where we need to urgently build the infrastructure to the extent that it is capable of dealing with the increased demand in terms of demographic changes. Will it be possible to make provision for movement in those areas, which may be required in the course of the year or over the next couple of years?

Deputy Paschal Donohoe: It will be possible. Our ability to do that is reflected in the plan we have published for our public finances. We are not looking to eliminate all of our borrowing in a single year. Where we do reduce borrowing, particularly from 2023 onwards, the aim is to get to a point where at least some of our capital expenditure can be funded by tax revenue that we are collecting. We have the ability to continue to make progress on the challenges and difficulties. The publication of the national development plan in the next number of weeks will outline how we will invest in the future.

Deputy Bernard J. Durkan: Thank you.

Deputy Pearse Doherty: I welcome the Minister to the committee. I want to pick up on the points he made in regard to next year's budget. In his opening statement, the Minister said that the expenditure ceiling would be fixed at €88.2 billion. This is consistent with what was spelled out in the summer economic statement such that regardless of how well the economy does, or tax fluctuation, the expenditure ceiling is confirmed and will not be changed. I want to tease that out with the Minister.

As we know, the budgetary package outlined in the economic statement allowed for €4.7 billion overall, €3.2 billion of which is already allocated or earmarked, with €1.5 billion being discretionary. Can the Minister confirm that that is the package regardless of what happens in terms of tax buoyancy in the next period unless it is funded by tax increases? Revenue is outperforming by about 5.4%. When you strip out corporation tax, it is still outperforming by 3.7%. Am I correct that the point the Minister is making is that regardless of that the expenditure limit is the expenditure limit, the package is the package and he will not be deviating from that? The recovery scenario outlined by the Irish Fiscal Advisory Council also suggested revenue for next year would be about €4.2 billion higher than was outlined in the summer economic statement. Is it the case that regardless of that materialising the plan is to stick with the figures outlined? I would appreciate it if the Minister could come back to me on that question.

Deputy Paschal Donohoe: I will be sticking to the figures outlined in the summer economic statement. The Irish Fiscal Advisory Council's commentary of the budget package and the parameters that we outlined can be described as cautious. As we move into, and conclude,

the Estimates process, it is my absolute aim that we would stay in line with the parameters we outlined before the summer.

Deputy Pearse Doherty: Okay. Given there have been changes in tax revenue and that the economic growth we are seeing is above what was projected in the summer economic statement, can the Minister outline the revised projections for the deficit in tax revenue this year and next year as a result of the tax buoyancy and higher than expected economic growth such that the committee is fully apprised of the detail? The Minister outlined the budgetary package of €1.5 billion discretionary, €500 million of which is for tax cuts. He also mentioned the Irish Fiscal Advisory Council. It has criticised these commitments and the fact that core expenditure rules permit these tax promises despite that they are permanent measures in nature. I am not sure if the Minister is aware of this but earlier today, in the Dáil, the Tánaiste made a clear commitment in terms of indexation on taxation. He went as far as explaining how it works and said that it was not tax cuts. I will not go into that debate, but there is a commitment to make sure that there will be no additional burden from tax as a result of wage increases. We see from the Central Bank's quarterly bulletin that it estimates compensation per employee will rise by 4.9%. If the Minister is to index bands and credits at that rate, it will cost €681 million. How is the Minister going to pay for that?

Deputy Paschal Donohoe: I thank the Deputy. We have not revised the economic forecasts we have as of today. In the run-up to the budget, we will make a final run-through of our economic and tax revenue forecasts for this year and next year. On other occasions, particularly when our September tax receipts and fiscal monitor are complete, I have done a press conference to indicate where I believe our tax revenue is likely to come in for the year and address whether it will have any impact for the following year. I will probably do that again but I am not going to do it until the September tax figures come in and we are still a few days away from that.

The Deputy made a point about the tax package and the difference between indexation and a tax cut. I would make the point, as the Tánaiste did, that we are trying to keep as much of the wage growth that workers may gain by being able to go back to work or stay in a job. We are trying to protect as much of that as we can from the increased level of taxation that would be caused by their movement going through the personal tax brackets. The total size of the package will be consistent with the parameters we outlined in the summer economic statement. They are the contours within which the budget will be put together.

Deputy Pearse Doherty: The Tánaiste was clear and at pains to point out the intention to protect people's wage growth from additional tax. The Minister has said the Government wants to do that as much as possible, which is different to what the Tánaiste said. It is also completely different from the commitment in the programme for Government which promised an index link to earnings growth. Given the fact that would cost €681 million, which is close to half of all the allocation that is available, and given the fact we have crises in health, housing, the cost of living and the cost of energy, is the Minister seriously still talking about that type of package for wage growth?

Deputy Paschal Donohoe: We will lay it out on budget day. We will lay out both the scale of it and how it will be funded. The Deputy is making the point that there are great challenges at the moment and challenges relating to the cost of living are building. I would, therefore, have thought he would welcome a package that tries to protect the take-home pay of workers, particularly low income workers, who might be experiencing increased levels of taxation at a point when they are going back to work. If we are acknowledging that pressures on the cost

of living are building, surely measures that try to preserve the take-home pay of workers could contribute to dealing with those challenges that are building in the cost of living.

Deputy Pearse Doherty: We will not go into that debate. The Minister and others like him, people who are earning salaries of €180,000, will also benefit from this tax cut. It is not directed only at people who are going back to work. It is all about priorities. The Minister has his priorities. My priorities are to make the investment in capital infrastructure in terms of housing, to make sure we recruit enough nurses and doctors to deal with the hospital crisis and to make sure we reduce the cost of living through reducing rents and the cost of childcare. The Minister has a different suite of policies and that is fine. We will go to the electorate and ask them to decide.

I will turn to the budget contingency fund. We know the figures that have been outlined. We must consider where we are at in terms of the recovery and the opening up of the economy. There is €2.8 billion in an unidentified reserve fund for Covid-19 measures, possibly including the extension of the employment wage subsidy scheme, EWSS, which should be extended at least into the first quarter of next year. Does the Minister believe that number is on the high side, given the new information we have? Is he aware that the Irish Fiscal Advisory Council, IFAC, is hinting that some of that money will not be drawn down in 2022?

Deputy Paschal Donohoe: I am more than willing to go into the debate with the Deputy at the right point.

Deputy Pearse Doherty: So am I. We do not have time.

Deputy Paschal Donohoe: We accept there is a crisis relating to many of the needs of our citizens and that is why we are going to be bringing out a national development plan that will have the highest level of capital expenditure in the recent history of our State. The Deputy is making the point, and I accept it, that rising costs with regard to energy are making things even more difficult, after we have already experienced a period of great difficulty. With that in mind, I would have thought the Deputy could see the value in measures that try to preserve the take-home pay of our workers. We will have that debate at another point.

I have heard some commentary that not all of the contingency fund may be drawn down next year. I have heard some of the views of IFAC on that point. One of the experiences I have had from using these contingency funds and putting them together is that draw down can at times come from unexpected sources. I have the experience of where we were with the contingency fund last year. We announced two different funds last October. I never thought I would be in a situation where both of them would be used. If they were used, I never thought that either of them would be fully drawn down. However, I found myself in a position whereby the funds were nearly entirely used by the summer. If there is an opportunity that we do not have to allocate so much funding into these contingency funds, we will certainly look at that but it is something about which I am going to be cautious.

Deputy Brian Leddin: I welcome the Minister and thank him for coming in to speak with us. I raise the issue of VRT on new and imported fossil fuel vehicles, including so-called hybrid vehicles. I raise the matter because, as the Minister knows, we have very ambitious climate action targets. Transport represents 20% of Ireland's greenhouse gas emissions and private cars represent the majority of emissions from that sector. We need to follow the example of Norway and significantly increase taxation on the purchase and importation of fossil fuel vehicles. The reason to do that is to prevent a lock-in of transport emissions over the next 15 years. We have to do that quickly, as soon as possible. It is better to do it sooner rather than later. There are

clear and serious climate reasons to do so.

We have had a significant build-up of household savings during the pandemic, as the Minister knows and as others have mentioned. From a balance of payments perspective, the purchase of new vehicles involves a lot of money leaving the State, compared to other, more labour-intensive household spending items such as home renovation. Our taxation system should reflect that. The average lifetime of a vehicle is approximately 15 years so new fossil fuel cars will be part of the national fleet for a long time. It is appropriate to give an increased price signal to reflect our climate commitments.

While electric vehicles are getting cheaper, there is not yet cost parity between fossil fuel vehicles and fully electric vehicles. We can use VRT increases on fossil fuel vehicles to achieve cost parity in the next year, as has been done in Norway. As most people know, Norway has one of the best take-ups of electric vehicles in the world. Significantly raising VRT on fossil fuel vehicles would be a progressive taxation. It would target taxation at those who are wealthy enough to purchase a new vehicle. The Minister said to me in a meeting a few months ago that the taxation system changed in January, when we brought in the new worldwide harmonised light vehicle test procedure, WLTP, emissions rating for VRT. The information I have is that the top selling new car in Ireland is a fossil fuel sports utility vehicle. It is clear to me that further market signals are needed.

Raising VRT for fossil fuel vehicles is also necessary to balance out the loss to the Exchequer from the increased take-up of zero-emission vehicles which attract a lower tax. While stability in taxation policy is desirable, our significant climate action agenda means it is inevitable that we will need to frequently change VRT and, indeed, motor tax to ensure the State's income stream is protected. I ask the Minister to consider a significant increase in the VRT charged on fossil fuel vehicles. He should do so as a prudent move to ensure the sustainability of the Exchequer as well as of future greenhouse gas emissions.

Deputy Paschal Donohoe: I thank the Deputy for the points he has made. He acknowledged, but I wish to develop a little more, the really big changes we made in respect of motor taxation last year, that is, the change in motor tax and the very significant decision we made with the introduction of the worldwide harmonised light vehicle test procedure, WLTP, using which we correlated the tax paid on a car with the impact it has on the environment. The Deputy may be aware that we are already seeing clear signals that the changes we made last year are having a contributory effect in the change in purchasing patterns for new vehicles. What we have seen up to this point in the year is already a clear shift in purchase trends toward lower emissions vehicles. To give an example, in 2020 the average WLTP figure was 135.6 g of CO₂ per kilometre. It now stands at 122.6 g. That is a real sign of change. I will not say for a moment that the changes we made in the Finance Act last year are the sole reason for that, but they are part of the reason. So far this year, we have seen up to the end of July a 33% increase in the purchase of electric vehicles and hybrids. To put that in context, the figure for 2020 was 20%, while in 2019 it was 13%. The rate of increase is accelerating before we make any change at all.

In the budget last year we changed the taxation of hybrids, recognising that due to the fossil fuel component of some engines the environmental or climate impact of some hybrids is not as positive as may have previously been understood. We changed some of our tax policy to capture and reflect that.

As regards further changes, as the Deputy stated, having already brought in a sweeping set of changes, I would normally be careful not to follow that with another set of changes only a

year later, but I am aware of the importance of the points the Deputy is making. I am aware of the existential nature of the climate crisis that we are, for now, trying to mitigate and I will certainly consider the points the Deputy is making. I ask him to be aware that this is in the aftermath of big changes already made that appear to be having a role in changing purchase patterns. Further changes have to be considered in light of what we have just done and in the context of a car market and car purchases that have had an incredibly volatile 18 months. We will certainly consider the point the Deputy has made but I ask him to be aware of those matters.

Deputy Brian Leddin: I thank the Minister. I really appreciate his answer. He is correct that we are seeing an effect from the changes brought in last year. My fear is that we are not bringing about change quickly enough. The cars sold in 2021 or 2022 will still be around in 2030, by which stage, obviously, the challenge is to reduce emissions across all sectors by approximately 51%. Transport will probably have to do more than other sectors, so taxation policy should join with that target. I know that every effort is being made to ensure it does, but we have to be absolutely confident that we are not creating a problem for ourselves in eight or nine years' time.

The second point I mentioned, of which I know the Minister is abundantly aware, is the wall of cash that is there. We do not want the personal savings that have built up in the past 18 months during the pandemic to leave the country. There are much better uses for that money, particularly in the area of retrofit and so on. I will leave it at that. I would appreciate hearing the response of the Minister.

Deputy Paschal Donohoe: I thank the Deputy. I ask him again to be aware, as I know he will, of the need to consider all these matters in the round. Any further decision we make relating to the taxation of the purchase or use of cars will be made in the context of the commitment we have to increasing carbon taxation. We are one of the very few Governments of which I am aware that have made the commitment to change the price of carbon. It is a really significant commitment to make and it is one in which I strongly believe. I know it is difficult but we have to change the use of carbon. Maintaining support for that and being able to deliver it year by year is a vital way in which we respond to the challenge the Deputy and I are both doing our best to try to mitigate for now and, perhaps, get to a better place in the future.

Deputy Richard Boyd Barrett: I am slightly amused by the fact that there are two versions of the Minister's speech and that the difference between them is that in one there is a reference to the famous statement by Charlie McCreevy that, "When I have it, I spend it", and the extreme damage that policy pursued by a Fianna Fáil Government did in creating the conditions for the economic collapse in 2008. I am curious why the Minister included that in the first version of his speech but then removed it.

I wonder whether his Government is not guilty of making the same mistake, particularly in the area of the significant expenditures that are going out on housing assistance payment, the rental accommodation scheme and leasing arrangements to private property interests because of the failure of the State to directly invest in and construct its own social housing stock. As a result, we are currently in a situation, and will be for the foreseeable future as I read the plans of the Government, of approximately €1 billion, a figure that will probably rise every year, going out in those sorts of payments to private property developers. Is that not a very significant and poor example of spending money in a profligate way that we should avoid? We need to replace that expenditure with direct investment in our own social housing stock, where the rental revenue will come back to the State and it would be able to reinvest those funds in more social housing.

A figure being bandied around for Housing for All is that it will cost €4 billion a year. I ask the Minister to confirm whether that is accurate. In our discussions with the Parliamentary Budget Office, it pointed out that the direct Exchequer funding is significantly less than that and that the Government is essentially hoping that more than 50% of the spending that would be required to deliver the 330,000 houses by the end of the period covered by Housing for All will come from the private sector. I ask the Minister to clarify that point. I will put all my questions now because I do not want the Minister to talk down the clock.

Deputy Paschal Donohoe: I would not do that.

Deputy Richard Boyd Barrett: Just in case. I refer to the distinction between current and capital expenditure. It often seems like a sensible distinction to make but, when examined closely, is often a false distinction. For example, we have significant skills and qualified professional shortages in a whole range of areas - the health service, construction and engineering and many other areas. It seems to me that the way to address that would be to create additional places in colleges and universities, which would be current expenditure, by creating additional places and removing things like fees and other obstacles to people accessing higher and post-graduate education. That would be current expenditure, but it would be an investment in the future which would save us money down the line. I would make a similar point about our proposal that we should have things like free public transport. It would be additional current expenditure, but in the future it would save us on things like fines for carbon emissions and so on. Therefore, I question the merits of that distinction in many areas. I could quote others but I do not have time.

Lastly, I pushed at this committee, as did other members, for the examination of tax expenditures, which the committee has agreed to examine. There is a huge shadow budget that we have every year that is not scrutinised in the same way as the direct expenditure budget. We are proposing that those tax expenditures should be examined in the same sort of way during the budget as direct expenditures. I would like the Minister to comment on that, because in my opinion many of those tax expenditures are essentially tax loopholes which allow big corporations to evade tax. To give the Minister one example, and perhaps he might comment on it, in the latest available figures for revenue, the cost of intra-group transactions, a tax relief, in 2019 was to the tune of €16 billion in lost revenue. I presume that is accruing to some of the big multinational corporations that use transfer pricing to avoid their tax obligations. That is €16 billion in just one category of tax relief. Should these things frankly not be closed down, or at the very least examined in a detailed way as part of the budgetary process?

Deputy Paschal Donohoe: I thank the Deputy. Given the warning that he has issued to me about not speaking for too long, I will try to be quick.

In response to the Deputy's first question, I just made the same point in different words. I apologise for two speeches being issued to the committee. I will ensure the same does not happen on budget day. On the Deputy's second point about the use of HAP and housing-related payments, I would love to be in a position in the future where we do not have to make as much use of those payments as we are currently. However, while we are in a situation where we are building more public and social housing and rebuilding our social housing stock, I believe those payments play a role in supporting those who need long-term secure rental accommodation while more permanent plans and homes are being made available to them.

Third, on the Deputy's point about capital expenditure, sometimes the line is more blurred than economic textbooks might indicate but, from a policy point of view, there still has to be a

segmentation. There is a world of difference between making a decision, for example, to hire 1,000 more teachers in any given year and committing to building a new public capital project that has a finite end point, at the end of which you can make the decision as to whether you want to maintain the spending or not with few of the difficulties that are sometimes associated with the management of current spending.

On the Deputy's final point on the review of tax expenditures, as a matter of policy we review all tax expenditures every three years.

Deputy Richard Boyd Barrett: First, I would like the Minister to comment on the intra-group transactions and the capital allowances, which are the two biggest categories of tax reliefs. To my mind, they are examples of aggressive tax avoidance by major multinationals. Tax relief in this category amounted to €16 billion in 2019, around €6 billion in capital allowances and, of course, there is the research and development tax relief.

I should also mention in respect of climate that the Minister is going to increase the carbon tax once again. The ESRI has stated that that is regressive for people on lower incomes when they have little control over their ability to reduce their energy use because of, for example, the quality of their housing. Is that not the case? Is the ESRI not correct? Is it not the case that it is going to increase fuel poverty, particularly given that, for example, in most local authorities next year the retrofit plans for social housing are for only 1% of the housing stock, so many people will have no control over the heating they need to keep their houses warm, and the Minister is going to punish them with further increases in the carbon tax?

Deputy Paschal Donohoe: The ESRI report also acknowledges that there needs to be plans in place that mitigate the effect of an increase in carbon pricing for those particularly who are on fixed income, which is why, budget by budget, we have made changes in the fuel allowance. My recollection is that the changes that we have made have been successful in protecting lower income citizens within our society from the more difficult consequences of an increase in carbon pricing. Data and evidence are also available to show that has happened.

On the Deputy's point about the use of capital allowances and intragroup transfers, I disagree fundamentally with the Deputy in describing them as tax loopholes in any way. That is just a consequence of the fact that we have so many companies located here in Ireland but are managing large businesses that take place in other parts of the world from Ireland. That inevitably means that changes take place to deal with transfer pricing, the transfer of funds from companies within a broader organisation that are part of how larger corporations run their businesses. I accept that the figures are high, but I do not accept the characterisation of them as being in any way tax loopholes. To re-emphasise, all tax expenditures are reviewed every three years.

Deputy Ged Nash: The Minister is most welcome to the committee's proceedings today. I can assure the Minister that I will give him as much time as he needs within the parameters the Chair will allow to answer the questions I have for him and the observations that I will make. I will try to be relatively brief. I wish to focus on the issue of corporation tax and the impacts that proposed reforms will inevitably have on the Exchequer over the coming period. I note with interest the remarks made by the Minister to Deputy Durkan earlier on regarding the €2 billion figure, which has been the received wisdom in terms of the extrapolated potential loss to the Exchequer essentially around pillar 1, to which we have fully signed up.

I think it would be useful, based on the remarks in response to questions to me from the

International Federation of Accountants, IFAC, yesterday, if we might reassess the figures in terms of what potentially could be lost to the Exchequer and what the position might be over the next period, if we do in fact sign up both to pillars 1 and 2 of the OECD process. I draw the Minister's attention to remarks made by Feargal O'Rourke of PwC on RTÉ Radio 1 on Tuesday. He seemed to suggest that the figures the Minister has cited and we have all cited repeatedly in respect of the potential €2 billion loss were in fact developed before there was any real OECD articulation of any new global minimum effective rate of "at least 15%".

First, does the Minister believe that we are at a point where we need to reassess those figures? Related to that, if indeed we do sign up to pillar 2 of the process in time, does he think we may end up losing something on the swings and gaining from the roundabouts, to borrow a phrase? My final question in respect of the corporation tax process is whether the Minister sees a landing zone on the horizon for Ireland that would allow him and give him the confidence to sign Ireland up fully to pillar 2 of the process, given what he knows at this point.

Deputy Paschal Donohoe: I thank Deputy Nash for his questions. I might try to dispose of his earlier questions quickly and maybe spend more time dealing with his final question. His first group of questions was about where we are with estimated revenue loss. We had to form those judgments regarding revenue loss early in the OECD process. At that point, I believe that it was vital that we plug into our figures and the public debate an expectation that revenues will begin to change. We will only be able to revise those figures when the full detail of how an OECD agreement would work is fully agreed and communicated. We are still some way off that. As further detail comes in, if that detail merits a revision of the figure that I have shared with the Oireachtas, of course I will update those figures and communicate it in the right way to the Government and the Oireachtas.

On the Deputy's final point about a landing zone, before I answer the question, it is important that the committee continues to be aware that any decision that we make is a decision that will carry significant consequences. I will outline two of those consequences for either of the choices that could become available to us. The first is to acknowledge that if we were to go into an agreement and it has a higher rate in it than our current 12.5%, then entering that agreement means a change in the rate. I note that in the current agreement as it is laid down, there simply is not clarity regarding what a future rate could be, since "at least 15%" can clearly mean any figure higher than 15%. I know that the OECD process, as critical as it is, is merely part of the process in which overall change will take place in corporate tax policy in Europe. It is also worth noting that at least being in an agreement carries with it our continued ability to influence corporate tax policy inside the forum within which global decisions are made and has benefits regarding engagement and the influence that we can have in the OECD on issues that are important to us. If and when we get to the right point to make this decision, those are issues that I will want to elaborate on.

If we are not in the agreement, of course it is the case that it gives us the ability and capacity to continue to preserve the figure that is there at the moment. Our rate of 12.5% has, as I have argued in many cases, been a deeply important element in our economic success and development to this point. Alongside preserving our ability to do that, there are three other factors that will require consideration. The first is the most understandable one, which has been the subject of public debate. It is the reputational consequence of being outside an agreement. As Deputy Nash knows, I believe that it is justified to be outside the agreement at the moment. The second is the real possibility, which is different from where we have been before, of the ability of other jurisdictions to form a view that certain revenue streams and levels of profitability are being

undertaxed and, in the context of a global accord being in place on these matters, the ability developing in the future to tax that revenue in different ways. Were that to happen, that would also have a potential effect on the stability and revenue that we gain from corporate tax policy.

The final issue relates to the medium-term consequences of being outside an agreement and what that means with regard to our ability to influence the future development of corporate tax policy, especially and vitally within the OECD.

I have shown my willingness to stand by our corporate tax policy and rate at many different points over the past four years and now, with the decision that I have made to be outside the consensus. It is useful to indicate to the committee that in any decision that lies ahead, there are consequences that will be meaningful and potentially very real for our economy, which the Government and I will have to consider if we get to a point in the coming weeks or maybe later in the year of deciding to enter not just the process but the agreement.

Deputy Seán Canney: I thank the Minister for coming in. I have been listening intently to what he has said and to the questions. He mentioned crises or challenges for the economy that may be coming. We have housing, health and climate action, including carbon tax and public transport issues. We are fighting many things on many fronts. The Minister talked about the national development plan and the spending that will happen. That all relates to the infrastructure that we need for the country to sustain itself over the next 15, 20 or 30 years.

I offer as an example the media reports about Intel having shortlisted a site in Oranmore in Galway for development and creating up to 10,000 jobs. A project of that size in the west of Ireland would mean that we would need to have at least 12 counties supporting that with resources, supplies and all that goes with that. It would be transformative for the region. If this project were to be successful, we would need to make sure that we are building the required infrastructure, including the outer bypass of Galway city, upgrading our roads to Sligo, creating rail lines and improving the rail networks that exist, because we are talking about up to 10,000 people. There is a challenge but also an opportunity. How will the Government deal with this? I asked the Tánaiste about it yesterday and he talked about additional supports for people in the region.

The eight counties in the Northern and Western Regional Assembly have been re-graded to being a region in transition, a lagging industrial region and a moderate innovator. The European Union has done a score sheet. It states that the re-grading is due to a lack of expenditure *per capita* to create the basis to keep balanced development in the country. With all the crises that we have, how will we balance that? How will we positively discriminate for such a region to make sure that it raises the bar further? How will we access the potential of Structural Funds from the European Union to do that?

That is my first question for the Minister. How does he see those challenges? If something is to lose out, what will lose out? It is a significant challenge and I wanted the Minister's thoughts on it.

Deputy Paschal Donohoe: I thank the Deputy. He refers to all the crises. I am aware of the many challenges we face with regard to the supply of homes and the transition to a lower carbon future. In acknowledging the crises we have, we should acknowledge and make the case for the things that are going well in our country and society. I refer to where we are in the reopening of our domestic economy, the level of entrepreneurship, the excellence of our schools and the work they have done in reopening and getting children back safely. There is much in our society and country that we want to do better, but I also make the case for many things that

are going well and of much of which we should be proud.

The Deputy made a point on our ability to meet the needs he described, particularly those of the communities and counties he referred to. That is why the national broadband plan is so important. It was not an easy or simple decision to make, but the Deputy and I made the decision to go ahead with the national broadband plan. Whatever criticism I got for making that decision would easily be outweighed by the criticism we would all receive if we did not have a national broadband plan being rolled out in the context of the massive change that could take place in many communities the Deputy represents outside of our larger cities. This is why the national development plan will be important. It looks to respond to many of the infrastructural and funding needs the Deputy referred to and to lay out how the funding will be made available to deal with these issues over a ten-year period. The Minister, Deputy Michael McGrath, is doing considerable work on this and I hope it will be published imminently.

I am not in a position to comment on the speculation over the investment the Deputy referred to but I make the broad point that the fact Ireland is still perceived to be competitive and attractive for investment decisions recognises, notwithstanding all we need to improve on, that our economy, society, entrepreneurs, public services and Government are coming together to try to do well on.

Deputy Seán Canney: I thank the Minister and I recognise that we have many positives in the country. When I mention the crises, it is not that they are negatives. There are always challenges. I see every day the number of young people biting at the bit to get involved in or set up businesses and to create industry and employment. One of the issues with that relates to the incentives to make work pay. One of the biggest challenges small and medium-sized companies and all businesses face is trying to get people back to work. How can we make work pay? It is marginal at times between working and not working. We need to make it worthwhile for people to be working.

On social welfare, I am a member of the Joint Committee on Disability Matters. We have gone through a huge amount of living experiences with people over the last year and a half. Some 13.5% of our population are disabled people. We need to make sure they are not below the poverty line. They have needs beyond others. They have many challenges which they have spelled out to us. There needs to be a special budget for people with disabilities to make sure they can live independently and in a way equal to everybody else, as their right. I ask that people with disabilities be taken on board in the overall formation of the budget on the basis that something special needs to be done for them.

Deputy Paschal Donohoe: I thank the Deputy. As he said, I acknowledge our young people going back to work, some starting work for the first time and going to college and the enormously positive future we are trying to create for them and that they are trying to build.

On making work pay, that is why it is important that, after two budgets in which we had no change in personal tax policies, rates, credits and bands, we work hard within the resources available to us to try to preserve and support as much of the income workers earn as possible, and to try to prevent that going into higher levels of taxation just by their wages going up. It is important in the upcoming budget that we recognise this in certain tax changes that the Government has yet to agree but which will be the subject of budget day communications.

The Deputy spoke about those citizens who deal with the consequences of disabilities, for whom daily life and going to work, school or college are more difficult. The Ministers for

Health, Social Protection and Business, Enterprise and Employment, have worked on this to try to create pathways to work for those citizens the Deputy is making the case for. We have targets within Departments and public service providers for trying to recruit and retain citizens with disabilities to give them the options to create and develop careers in our public services. I will take the Deputy's point on board. When the Ministers, Deputies Michael McGrath and Stephen Donnelly, are working on the health budget for 2022, I am sure this will be given the consideration it needs.

Deputy Mairéad Farrell: Gabhaim buíochas leis an Aire. We are in a crisis in terms of gas and energy costs. With regard to policy tools that can be used to respond to that crisis, in response to a parliamentary question my colleague, Deputy Doherty, submitted in January 2019, the Minister said VAT rates for household utility bills such as gas and electricity could not be reduced below 12%. I believe this was in reference to Article 118 of the EU VAT directive. Will the Minister clarify that further?

Deputy Paschal Donohoe: Did the Deputy say “January 2019”?

Deputy Mairéad Farrell: Hence it was not me who put it in, yes.

Deputy Paschal Donohoe: I do not have that answer available at the moment. I am not aware of whether the VAT directive with regard to that issue has changed. I will check that and, if there is any change, I will let the Deputy know.

Deputy Mairéad Farrell: I thank the Minister; that would be helpful because it is important when we are in this crisis in terms of energy costs for people to do everything we can. Anything we can do would be essential for those people, who are struggling.

I want to talk about the corporation tax issue. I do not want to talk about the specifics of the two-pillar system or the negotiations under way. My questions are more hypothetical because I am aware the negotiations are under way. If the OECD agrees to a global minimum effective corporation tax rate above 12.5%, has the Minister received a signal from the Commission that it will allow the State to operate two different corporation tax rates simultaneously for those who fall outside the OECD process? I do not ask the Minister to say what he will do, but just if he has had any signal on that.

Deputy Paschal Donohoe: That is not a hypothetical question. We are engaged in a really sensitive and important negotiation and process on behalf of our country, and that is not a hypothetical situation in the sense that my answering that is, of course, relevant to the discussions and negotiations that we are having. Our ability to do that will be dependent on the final decision that we make in regard to the OECD process and, as we are working way through the OECD process, we will need to engage with the Commission in terms of its views on the tax changes and directives it is likely to bring in in the future.

Deputy Mairéad Farrell: Go raibh maith agat. I was not asking for the Minister's opinion on that; I was just hoping he could give an indication.

Second, the Commission has said it will legislate through a directive for Pillar 2 of the OECD inclusive framework proposals. Regardless of whether this State signs up or does not sign up to the final agreement, would the Minister agree it does set a significant precedent for the Commission to legislate on the tax policy of member states?

Deputy Paschal Donohoe: The Commission will be using the powers it currently has in

this area. Any decision it makes on the implementation of the OECD agreement has to be consistent with the Single Market and has to be in line with the powers it has under the law of the European Union. It is the way OECD agreements have been implemented in the past and when the BEPS process was implemented, it was implemented via Commission directives.

Deputy Mairéad Farrell: I want to go back to the question of the energy crisis, as well as the energy costs crisis. I am sure the Minister is aware that, by the end of the decade, data centres are set to consume around 30%, and from figures that have been talked about, it will be 29% by 2028, in seven years. We know that as a result of increased energy usage from those already in operation, as well as issues in terms of imports of fossil fuels, there have been concerns about the possibility of blackouts. Companies constructing these data centres can qualify for capital allowances – basically, tax concessions - and the Taoiseach has also called for the fast-tracking of the construction of these data centres, which could mean even more tax concessions. However, the information on those capital allowances is not compiled separately by Revenue, so that information is not publicly available. Is it possible that this information would be made available? Is that something the Minister could look into because, realistically, it would be very important in terms of fiscal and environmental perspectives.

Deputy Paschal Donohoe: I will certainly see if that is possible. We do not normally break down the drawdown of capital allowances into what those capital allowances are used for and, therefore, it may not be possible on taxpayer confidentiality grounds to provide the information the Deputy is looking for, but I will certainly ask.

The point I would make around data centres is that the reason the Government has been supportive of their development is that they are part of the broader reason international investment is resident within our country. Of course, we are well aware of the impact it has on energy supply. We know we will have to invest in that energy supply and ensure we get the balance right between being able to support data centres and, of course, meeting the energy needs of our country. We are well aware of the balance that needs to be achieved but the reason we have been supportive of these data centres up to this point is that they provide part of the proposition for jobs and investment in our country.

Deputy Mairéad Farrell: We can argue the point on another occasion. I want to double check something. In regard to Pillar 2 and corporation tax, the Tánaiste, Deputy Varadkar, said that any potential higher tax rate would only apply to companies with a turnover of €750 million or higher in Ireland. Is the Minister, Deputy Donohoe, saying the Commission has not approved this?

Deputy Paschal Donohoe: It is not at the point where it is at the Commission yet. What the Tánaiste was doing was just making reference to the OECD statement that already refers to companies that have a level of turnover that is greater than €750 million. That is the current draft text of the OECD agreement.

Deputy Mairéad Farrell: For clarity, and maybe it is that I am slower to pick this up, that means there would be two levels. Hypothetically, this could be 13%, so what did the Tánaiste mean in that regard? I am slightly confused.

Deputy Paschal Donohoe: The Tánaiste was referring to the OECD text that is there at the moment. If and when we make a decision that we are either going to enter into the OECD agreement or we are not, at that point, I will be able to give full clarity on the question the Deputy is asking me.

Deputy Mairéad Farrell: At this moment in time, the text says that there is this difference. At this moment in time, whether we enter or not, according to that text, as the Tánaiste understood it and portrayed it, that would mean it would be separate and it would only be for those who are in the process.

Deputy Paschal Donohoe: As it stands at the moment, the OECD agreement applies to companies above a certain level. That is it at the moment. What is critical for me is not the text as it stands now, but where it will be later on in the process.

Deputy Mairéad Farrell: I fully understand that and I understand that the Minister is involved in those negotiations. However, the point is that, as it stands, that is what it would mean. It would mean that those that are below that €750 million could have the 12.5% and the others would not. I am not suggesting the Minister is entering or not entering, but as the text stands now, that is where it is at.

Deputy Paschal Donohoe: As it stands now, it only applies to companies above a certain level of turnover, but that is the text at the moment. The key thing is how it develops and what is finally agreed.

Chairman: I thank Deputy Farrell. I call Deputy Patricia Ryan.

Deputy Patricia Ryan: I thank the Minister for attending. The Minister may have answered this question earlier when my phone rang, so apologies if I he has dealt with this. Did he mention when the national development plan is going to be published?

Deputy Paschal Donohoe: No, I did not. I said “imminently”. I did not give a date for it.

Deputy Patricia Ryan: We do not have a date. Is that correct?

Deputy Paschal Donohoe: I do not have one at the moment but I expect the publication to happen soon.

Deputy Patricia Ryan: Thank you. I am not sure if the Minister had a chance to view our committee footage from yesterday, but Sebastian Barnes of the Irish Fiscal Advisory Council expressed his concern about the lack of an economic assessment of Housing for All, the Government solution to our housing crisis. If he has not already, will the Minister commit to such an assessment and also to publishing it?

Deputy Paschal Donohoe: I am not sure if further assessment of Housing for All is needed. It was the subject of extensive engagement within government. As each constituent element of Housing for all is implemented, it is at that point that an evaluation will take place of the impact it will have. It is difficult to evaluate the plan or do an economic appraisal of the plan in its entirety but, as we take each individual step in Housing for All, that will be subject to the normal means of Government scrutiny.

Deputy Patricia Ryan: Even though Mr. Barnes expressed his concern at the lack of assessment.

Deputy Paschal Donohoe: I will always listen to the views of Mr. Barnes and the Irish Fiscal Advisory Council, but I still make the case that it is appropriate that we evaluate each element of the plan and we subject that to normal Government procedures. It is a challenge to be able to evaluate in its totality a plan that has so many different elements within it.

Deputy Patricia Ryan: Deputy Leddin and the Minister discussed climate change and all of that. Mr. Barnes also expressed his concern about climate change mitigation. I am concerned that we are facing a looming charging crisis with the 2030 ban on the sale of petrol and diesel cars, in particular with regard to rising rates of apartment living. Will the Minister consider a requirement or incentive for businesses and apartment developers to encourage them to provide charging infrastructure and better funding for local authorities to ensure that public charging is also available?

Deputy Paschal Donohoe: Significant funding is already committed to in the capital plans included in the summer economic statement. I am certain that the Minister, Deputy Ryan, when deciding how that funding will be allocated, will put in place higher levels of funding to lead to the roll-out of the infrastructure that is necessary for more electric cars. I am afraid I do not have the detail related to that.

Chairman: I will have a second round and give anybody who wants to come in four minutes. I have two questions. I am sorry if I start with something that is relatively obscure. I want to ask the Minister about the Evergrande debt crisis. For those unaware of it, Evergrande is the second largest real estate company in China and it now has a debt of approximately \$305 billion. Both Fitch and Moody's ratings firms have signalled that a default is likely, if not inevitable, and may lead to some global instability. Are the Department and Minister monitoring that situation? Are they aware of any specific exposures that Ireland faces? Are they concerned about a situation where we do not face specific exposure but since we live in a global environment, we might be exposed to a global domino effect in the banking community?

Deputy Paschal Donohoe: We are monitoring it. We believe that our capital markets and banking systems are resilient and able to deal with any contagious effect from the issue that the Chair refers to. It is the case, as can be seen in changes in the pricing of certain commodities and the performance of particular equities, that we live in a deeply interconnected world and changes that take place in the Chinese banking sector definitely have the ability to influence the performance of the global economy and national economies which are intertwined with China. We are monitoring it. We do not have a specific exceptional link to what could be happening with the development of that enterprise but it is far from obscure.

Chairman: I thank the Minister for saying that. I want to follow up on another item. The Minister signalled in the past year that he might introduce a gaming credit, fund or tax-favourable situation for the gaming industry in Ireland. That would be a commendable thing to do. It is exactly the type of industry that we should support in Ireland. It is highly skilled. However, I am aware that employment conditions in the gaming industry can be less than ideal and there is often a gender disparity in the sector. As we look at that issue in budget 2022, are there any considerations by the Department to link State funding, support or favourable conditions from the State to better employment conditions, gender parity, disparity, or requirements for a living wage?

Deputy Paschal Donohoe: I should emphasise that this is the digital gaming sector that the Chair and I are referring to. I have signalled that I am interested in seeing how we can develop it further. I am working on it at present. Looking at the strengths that we have in filmmaking, animation and IT already in Ireland, the digital gaming sector is a part of our creative economy that I believe that we can do even better in. Regarding the issues that the Chair referred to, we have developed some tests through the administration of the section 481 film tax credit, which Deputy Boyd Barrett is well aware of, that can deal with some of the issues but probably not all. Certain criteria would need to be met before any digital game firm would be able to access

such a credit were it to be brought in.

Chairman: I believe that if we worked on those issues relating to employment conditions and gender diversity, it would build capacity in the industry and benefit everybody. I will open the session to a second round.

Deputy Pearse Doherty: I will come back in on the issue that Deputy Mairéad Farrell raised. There is a lack of clarity, given the conversation that went on. Will the Minister clear this up? Two days ago, on Tuesday, the Tánaiste stated, “any agreement we may or may not sign up to won’t impact the average Irish business, won’t impact even any large Irish business, or mid-caps. The 12.5 per cent rate will stay in place for them”. Can Deputy Donohoe, as Minister for Finance, say that that is an accurate statement?

Deputy Paschal Donohoe: The Tánaiste is referring to the current OECD agreement and he is correct in making that reference.

Deputy Pearse Doherty: He is not referring to the OECD agreement. I am familiar with the current draft that has been agreed. The question is about its implementation. Deputy Farrell has put that question to the Minister. For us to implement that, mindful that many countries across the globe have an effective rate of above 15%, from what the Tánaiste has said, we would need approval from the Commission to operate two different rates simultaneously, both the 12.5% rate and whatever other rate may be agreed by the OECD. The question originally asked of the Minister was whether he has had a signal or clarification from the Commission that that would be allowed after the base erosion and profiting shifting, BEPS, process had concluded.

Deputy Paschal Donohoe: I am engaging with the Commission on this and other matters. I will be in a position to give a full communication on those matters if and when Ireland enters the OECD agreement, if we decide to do so.

Deputy Pearse Doherty: The Commission has not yet approved a situation where Ireland can run two simultaneous taxation rates, which currently could not be done. Does the Minister have any confirmation that we could potentially run two simultaneous corporation tax rates, with one at 12.5% for those outside the OECD BEPS process with turnover of less than €750 million, and then whatever higher rate we could potentially have if we opted into the OECD BEPS process?

Deputy Paschal Donohoe: That is an important question that I want to and will answer if we decide to enter into the OECD agreement. At that point, I will give the Deputy such an answer.

Deputy Pearse Doherty: I do not think that is good enough, with respect. Maybe the Minister does not have the answer, because it appears that it has not yet been approved by the Commission. I put it to the Minister that the Tánaiste went to the media and gave certainty to businesses that regardless of the outcome of OECD BEPS and regardless of whether we opt into that process, businesses without a turnover of €750 million will be secure, and the 12.5% tax rate will remain. Can the Minister give that same certainty at this committee? Uncertainty in this situation is not good and the Minister needs to clarify the comments by the Tánaiste. Companies are operating across the State and paying corporation tax at 12.5%. Will that remain unchanged regardless of anything that comes out of OECD BEPS unless a company has turnover of €750 million?

Deputy Paschal Donohoe: That is the OECD tax agreement that is in place at the moment.

The Tánaiste was completely correct in what he said. I will be able to outline how that will be implemented or any Commission engagement that is relevant to it if I decide to recommend that Ireland enter into the agreement.

Deputy Pearse Doherty: Could Ireland operate two separate tax rates for these types of companies at this point in time if we wanted to do it in our Finance Bill? We obviously could not. We would need Commission approval to do that.

Deputy Paschal Donohoe: That is why I am engaged in a delicate and important negotiation on a critical matter for our country. When those discussions are concluded, of course I will be in a position to fulfil the answers to the Deputy's questions and his information needs.

Deputy Pearse Doherty: The Tánaiste-----

Deputy Paschal Donohoe: Let me conclude. The Deputy is asking me about the nature of engagement that I have had with the Commission. When that engagement is concluded, I will then be in a position to answer the Deputy's question, and the Tánaiste was correct in what he said.

Deputy Pearse Doherty: From what I take from what he is saying, the Minister, unlike the Tánaiste, is refusing to give the same commitment that this will not impact average Irish businesses, large Irish businesses or mid-caps and the 12.5% rate will stay in place for them.

Deputy Paschal Donohoe: I am standing by and have exactly the same view as the Tánaiste on this matter. When we conclude the negotiation in this process, I will be able to spell out and detail any engagement that I have had on this matter with the Commission or elsewhere.

Deputy Bernard J. Durkan: Earlier in the week and this morning we had discussions with the various groups that are looking towards the budget with some hope on the basis that during Covid various sectors were neglected. For instance, the Irish Cancer Society indicated how much it had fallen behind in dealing with urgent care issues in the past 18 months - and understandably, because the services were obviously highly strapped in dealing with the immediacy of another issue. Similarly, other issues were raised in relation to CervicalCheck etc. The issues raised are ongoing and have a serious impact on health. Will it be possible to sympathetically consider all those issues, including housing, special needs and early years education, as well as climate, notwithstanding the exigencies within which the Minister has to operate for obvious purposes? Will there be a role in managing the national debt for the NTMA, as there was in the past? It is a reverse situation to that which prevailed previously when borrowing was at high interest rates and it was obviously easier to offload and roll over into lower interest rates. It will not be that easy to do the next time, but there may still be a role for the NTMA. What could that role be in those circumstances? To what extent could it be utilised?

My two questions relate to the seriously pressing issues in terms of health and other services, and the potential role for the NTMA.

Deputy Paschal Donohoe: Yes, there will be a role for the NTMA in any scenario ahead with regard to our debt because it is on such a large scale. Second, within the scale of the health budget there will absolutely be the ability to give good consideration to the issues raised by the Deputy.

Deputy Bernard J. Durkan: In the event of there being any difficulty in raising funds in the international market, could the private or personal savings in the banks in this country be

utilised by way of incentive in order to supplement the budgetary issue in way that might be positive and in a way that would not impact on foreign debt? Would that be possible? Obviously, there would have to be some incentives, but I presume it could be possible. Again, could that be done through the aegis of the NTMA?

Deputy Paschal Donohoe: Yes, indeed. That is why the NTMA has a national savings bond and many existing ways in which the savings of those resident in our country can be used in a productive way and can be invested in activities that the NTMA runs. Those facilities are there at the moment. I know that for many, they are not attractive, given the interest rates that are available on them currently, but they are available.

Deputy Bernard J. Durkan: But they could be incentivised.

Deputy Paschal Donohoe: They could be incentivised further, but all of these things do carry a further cost with them.

Deputy Bernard J. Durkan: My final question concerns the sensitive and pressing issues that may need to be addressed as a matter of urgency, namely, those relating to health, housing, education and special needs education, etc.

Deputy Paschal Donohoe: As I told the Deputy a moment ago and have said to other colleagues, this is why we will have a national development plan. Within that plan there will be the ability to make progress on many of the capital needs that are required to make progress, particularly in housing. It is a really big plan. Housing for All already shows the many ways in which we can make progress.

Deputy Richard Boyd Barrett: I do not have time to go into it in detail, but I wish to mention in passing, following on from Deputy Hourigan's point about the digital gaming sector, that I do agree that in terms of investment in film - I do not think there is such a problem with animation - or any of these areas, we need to link the funding even more strictly to proper conditions of employment, pension entitlements and so on. I appreciate that the Minister has responded to issues that I have raised in respect of the film sector, but I want to inform him that the major recipients of section 481 film tax relief continue to essentially deny their responsibility to employees from one production to another, and indeed, continue practices of blacklisting employees who raise those issues. Despite the efforts of the Minister in that regard, they are signing declarations about compliance but then continuing as they have acted in the past. Further measures need to be taken there.

I wish to raise the issue of revenue raising. We are alone in the Dáil in asserting that we should increase the corporation tax rate and that it is immoral, essentially, that corporations in this country pay a lower proportion of their, in many cases, staggering profits in tax than the average worker does. How does the Minister sustain, on moral grounds, defending the very low levels of tax against attempts at an international level to bring in some reform? There is no excuse now that there is a big international move to increase the tax contribution of these multinationals.

On that general theme, given that we face huge challenges and crises in climate, housing and the health service that will require additional expenditure, should the Minister be looking at additional sources of revenue in the coming budget, particularly from sectors that have made big profits, or employers' PRSI, which is some of the lowest levels anywhere in Europe in this country, or financial transaction taxes or wealth taxes? These are things that would not punish

ordinary workers who sustained us through the pandemic, but would begin to redistribute the vast accumulations of profits and wealth that continue to accumulate at the top of our society.

Deputy Paschal Donohoe: The corporate tax regime that we have at the moment has been capable of yielding really significant increases in corporate tax revenue over the last number of years, much of which has been used to invest in capital expenditure or to try to respond to the social needs that we have currently. I believe the corporate tax structure that we have at the moment is effective in meeting the needs to which the Deputy has referred. Some of the broader matters to which he has referred can only be addressed on a global level. That is why the work of the OECD is important. We have yet to make a decision as to whether Ireland can be part of the final agreement. Currently, we are not, but we remain committed to the process and we are working on these matters as we speak.

Chairman: I presume that is the end of Deputy Boyd Barrett's questioning.

Deputy Richard Boyd Barrett: Perhaps the Minister could answer on the issue of other sources of revenue in the area of wealth taxes or whatever in the budget.

Deputy Paschal Donohoe: I think the Deputy and his political party are the only ones left that are still making the case for wealth taxes. I do not mean it in a pejorative way. While I do disagree with the Deputy on many of the matters that we debate---

Deputy Pearse Doherty: That is not accurate.

Deputy Paschal Donohoe: The Sinn Féin support for the wealth tax comes and goes. It supported it a while ago but then I did not hear it mentioned for a long time. I hear it being mentioned the odd time again now.

Deputy Pearse Doherty: In every alternative budget that we have put forward-----

Deputy Paschal Donohoe: Maybe it is about to make a comeback. It is not in every alternative budget Sinn Féin has put forward.

Deputy Pearse Doherty: It is.

Chairman: I ask Deputy Doherty to speak through the Chair. Go ahead, Minister.

Deputy Paschal Donohoe: The Deputy who holds the prize for consistency with regard to wealth tax is Deputy Boyd Barrett rather than Deputy Doherty.

Chairman: I can make the case that the Green Party also supported wealth tax back in the day. I do not see any other hands raised so nobody else wishes to contribute. It remains for me to thank the Minister and Mr. McCarthy for their attendance today and their assistance to the committee. It was a very useful session prior to the budget. We received a large amount of information and I thank them for that. The committee's next meeting will be on Thursday, 30 September, at 9.30 a.m. to discuss pre-budget 2022 scrutiny with the Minister for Public Expenditure and Reform.

The select committee adjourned at 3.51 p.m. until 9.30 a.m. on Thursday, 30 September 2021.