DÁIL ÉIREANN

AN ROGHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AGUS ATHCHÓIRIÚ, AGUS AN TAOISEACH

SELECT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM, AND TAOISEACH

Dé Céadaoin, 9 Samhain 2016

Wednesday, 9 November 2016

The Select Committee met at 10 a.m.

MEMBERS PRESENT:

Deputy Richard Boyd Barrett,+	Deputy Michael Moynihan,+
Deputy Peter Burke,	Deputy Paul Murphy,
Deputy Joan Burton,*	Deputy Michael Noonan (Minister for Finance),
Deputy Michael D'Arcy,	Deputy Jan O'Sullivan,*
Deputy Pearse Doherty,	Deputy Peadar Tóibín.+
Deputy Michael McGrath,	

* In the absence of Deputy Sean Sherlock.

+ In the absence of Deputies Paul Murphy, John McGuinness and Pearse Doherty, respectively, for part of the meeting.

In attendance: Deputy Stephen Donnelly and Deputy Eoghan Murphy.

DEPUTY JOHN MCGUINNESS IN THE CHAIR.

Business of Committee

Chairman: We are now in public session. I welcome the Minister and his officials for our consideration of the Finance Bill 2016. It is proposed we conclude this session at approximately 11.15 a.m. The committee will resume at 2 p.m. in Committee Room 2. We will suspend for Dáil votes during any of these meetings. In order to provide for the smooth running of the meeting, any Member acting in substitution for a member of the committee should formally notify the clerk now if he or she has not already done so. Second, divisions on the Bill will be taken as they arise. Third, members attending this meeting in accordance with Standing Order 95(3) should be aware that, pursuant to that Standing Order, he or she may move his or her amendment but cannot call for or participate in voting on that amendment.

I now intend to proceed to section 1 of the Bill.

Deputy Pearse Doherty: I would like a clarification. The Chairman said the divisions will take place as they arise. Will they not take place at the end of the sections, as normal in committee?

Chairman: There is no guillotine, so we will deal with them as they arise.

Deputy Pearse Doherty: Okay.

Minister for Finance (Deputy Michael Noonan): We did not introduce an allocation of time motion, as would have been the custom in previous debates. However, to facilitate Deputies, if they would like an informal time motion, they can think about it and we can agree it, rather than proceeding by way of a formal time motion.

Deputy Pearse Doherty: It is fine. I asked out of curiosity more than anything else.

Chairman: Shall we just proceed and see how it all plays out?

Deputy Michael Noonan: All right. That is fine.

Finance Bill 2016: Committee Stage

SECTION 1

Question proposed: "That section 1 stand part of the Bill."

Deputy Michael McGrath: May I speak to section 1?

Chairman: Yes.

Deputy Michael McGrath: I will speak just for a moment. It would be helpful at the outset of this debate on the Finance Bill, which enacts the budget, if the Minister could briefly comment on the current economic backdrop. There seems to be a lot of uncertainty at the moment. There is the most recent report from his Department and the ESRI on the impact of Brexit, whether it be a hard or soft Brexit; the public sector pay issue, which is evolving very quickly; the election overnight of Donald Trump in the United States; the issue of the public finances generally; and the unusual warning by the Department of Finance which accompanied the October Exchequer returns that the November-December figures will need to be quite strong. It seems to me there is a lot of uncertainty at the moment. Before we embark on enacting this Bill to give effect to the budget, I ask that the Minister give us his sense of the current position of the Irish economy. It is completely at the discretion of the Chairman but it would be very important.

Deputy Pearse Doherty: I echo that call. It is important that we frame the discussion we will have this week and next week on Committee Stage of the Finance Bill in the economic context we are in. As Deputy McGrath said, we are all aware of the uncertainty surrounding Brexit and the Exchequer figures, but last night's victory for the Trump campaign has created further uncertainty, which the Minister himself referred to previously when speaking of the uncertainty of that campaign. One of the commitments the President-elect has made is to cut corporation tax from 35% to 15% and try to relocate American companies back to his own shore. I have been on the record of the Dáil on many occasions talking about the potential volatility of our corporation tax receipts and the fact that 40% of those receipts are paid by ten companies. It would not take a huge amount of movement to create a very unstable tax scenario for this country. While we will not be able to pre-empt what will happen either in Congress or the Senate at any time in the future, we must be conscious of the fact that a major political pledge has been made, and that pledge has now become more real as a result of the election of Donald Trump as President of the United States of America. Therefore, it is important that we have that brief discussion that frames and sets out what we are looking into as we discuss the issues in the Finance Bill, whether we should cut taxes or increase them.

Deputy Michael D'Arcy: I concur with the two Deputies. It would be very helpful if we had such a debate or conversation, formal or informal, whichever way the Chairman wants to go with it. We are in a new dynamic. Deputy Doherty is correct about the pledge, but I remind him that George W. Bush made the same pledge during his campaign and did not fulfil it in an eight-year period. The economic cycle is having an enormous impact upon the political cycle. It is the first time anybody has been elected to the presidency of the United States who has not served before in government, executive office or the military. It would be a very good open opportunity for all of us to kick these matters about because there is a volatility. It comes not just from what happened in the United States last night, but also from Brexit, Northern Ireland considering reducing its corporation tax rate to the same level as ours and the UK saying it would do likewise, although it then pulled back. We do not know what other jurisdictions' options are, but they have options, and our options will have to be flexible as well. We should take the opportunity to discuss these matters.

Deputy Michael Noonan: First, I will give some context about the overall cost of the measures we propose in the Finance Bill. They net out at about €350 million out of a budget of just north of €58 billion. Therefore, what we are discussing here is very marginal in quantum terms, even though it is significant in policy terms. We should keep that in mind. The expenditure side of the budget has a more significant impact and in terms of public service pay and so on the impact is more on the expenditure side than on anything we are doing here today.

Secondly, regarding the Exchequer figures running towards the last two months of the year, the point I was making when I designed that comment on the October figures was that there was not a big pool of money to be spent on anything because even though the forecasts were running at around €600 million, the revenue flow was around €600 million ahead of forecast. The point being made was that there was not a big pool of money to be spent because all this expenditure was pre-committed. The committee will recall that last June there was a commitment to spend about €500 million extra on health; to spend about €40 million extra on justice; to spend extra money to repair flood damage, particularly on roads, and to put in flood defences and so on; and to restore the summer schools programme, which is the repair programme carried out in schools during the school holidays. All of that amounted to around €750 million. Then there was a commitment to restore the Christmas bonus as well. The point being made was that the Exchequer would need to exceed forecast again in the last two months of the year to ensure that there was sufficient money to cover what was committed beyond the figures in last year's budget. However, my expectation is that there will be sufficient money to do that without increasing the deficit. The point being made was that this was not net additional money available for further expenditure but that it had already been pre-committed.

On Brexit, members are all following the debate. They see what is happening in the United Kingdom and they see that the court case decision has added another complication to the triggering of Article 50 by the British authorities. However, in so far as there is new information here, the committee will recall that in generating the figures on which we based the 2017 budget, we took 0.5% off forecasted growth rates, and consequential buoyancy of taxation was reduced accordingly. This is accounted for in the figures, and we stand over that. That is the way it looks as if it will run out for 2017. The additional information arises from work done by the ESRI and the Department of Finance. They have taken three scenarios of the effect on the Irish economy if, first, an arrangement analogous to what Norway got with the European Union was the end result for the UK. The second scenario is what would happen if an arrangement analogous to Switzerland's were more or less the conclusion of the negotiations with the UK. The final scenario is what would happen in the event of no resolution and no negotiated settlement, with the UK having to revert to World Trade Organization rules as a most favoured nation. In those three scenarios, different percentages of a reduction in growth and employment in the Irish economy are promulgated.

First of all, this would be ten years after the exit of the UK, so we are looking maybe 12 or 13 years down the line. Second, the base is that these would be the reductions from the position if Britain had retained membership. For the next five years, we expect to grow at approximately 3.5%, which is the sustainable rate of growth in the Irish economy. If one assumes we will grow by north of 3% for the next 12 years, which in present circumstances is a reasonable enough forecasting assumption - although it is very hard to know what will happen as one goes further out on the timeline - it would be 36%. If that is compounded, it goes into the 40% range. In the worst-case scenario, we are talking about a reduction of 3.75% off some figure in the early 40s when one thinks of it as against the baseline. Other figures for the other positions are then built in as well. There are also figures for employment reductions and I assume unemployment increases are also built in.

The other assumption, apart from the baseline, is that Irish authorities would do nothing in response to whatever arrangement would occur between the UK and the European Union. Again, that is a theoretical assumption as an Irish Government or Governments over 12 years, for better or worse, will take action. We assume the actions taken will be beneficial, reducing the damaging effect. For example, if we introduced export guarantees for our vulnerable exporting industries, which is common enough across the OECD, it would mitigate damage that would occur. That is not built into the model.

The third issue raised by Deputy Michael McGrath is the position in the United States. The Taoiseach will be making a statement later in the day and I will leave it to him. It is very early to make any conclusions about what a new Administration in the United States might do. There is a change in the presidency but there is such a change every four or eight years in the United

States. The composition of other elements of the US political system also change. I understand that going into the election the Republicans had control of the House of Representatives and the Senate. They have approximately two thirds of the governorships. Apart from the presidency, if one considers the pattern of governance across the United States, the Republicans are the party of government at state and local level. I do not know what will happen any more than the Deputies. I have followed the debate like any professional politician would in a country as powerful and as friendly with Ireland as the United States but I cannot estimate the fallout. There are changes in the presidency but the other elements appear to be where they were before the election.

The Taoiseach will make a statement later in the day and our relationships with the United States have been very strong. I have no doubt they will continue to be very strong but with regard to being precise about possible economic impacts, I cannot help Deputies any further than in what I have said.

Deputy Michael McGrath: There are projections underpinning this budget related to economic growth, specifically 3.5% in gross domestic product and 3.3% in gross national product next year, as well as all the other fiscal projections. Does the Department and Minister still stand over those projections for 2017? Could we have that confirmation before we embark on this process? Will the Minister address the issue of public sector pay? It falls within the remit of the Department of Public Expenditure and Reform but the Minister has overall responsibility for the public finances, achieving our targets and so on. There is €290 million factored in for 2017 for additional expenditure on the Lansdowne Road agreement but there is nothing else there. Given how quickly there have been developments on the public sector pay front, what are the ramifications for the public finances for budgetary policy in respect of 2017? The Lansdowne Road agreement, notionally, is meant to be there until September 2018 and it is important the backdrop be dealt with upfront. This is a train that is coming at us very quickly and it shows no sign of stopping.

Deputy Joan Burton: On the prospects and outlook for the economy, the Minister for Public Expenditure and Reform said of the deal struck on Garda pay - I assume it would apply to any additional costs arising from other negotiations - that the cost of approximately €40 million would have to come from existing resources. It would be helpful if the Minister would indicate if this means an axe will be taken to the capital programme to the tune of approximately €40 million. In a developmental model of the Irish economy over the next ten to 15 years, one critical area that suffered significantly during the collapse, kind of like a feeble patient slowly recovering, is capital expenditure.

I heard the American ambassador on RTE this morning stating the obvious. While our corporate tax rate is attractive, President-elect Trump has certainly indicated on various platforms that he will introduce a reform of American corporate taxes, bringing them down to approximately 15%. As the ambassador stated on radio this morning, American companies do not just come here for the tax rate. They come for the standards and levels of education of people, their employability and the fact that we speak English. There is also the significant issue of us being part of the European Union. However, the Minister knows from discussions - as I know from my constituency experience and discussions as a Minister with many companies - that the constant complaint is around public infrastructure, particularly in areas like transport and broadband. All of us from Ireland know we have major infrastructural challenges such as those on the education front, as has been mentioned, at third level as well as primary and secondary level. There are also challenges in health.

The Minister's colleague indicated the €40 million for the Garda settlement would be found from resources. Does the Minister have a sense at this point what those resources will be? Will it come from the Department of Justice and Equality or different Departments? On many occasions I gave very significant amounts from the Department of Social Protection budget to the Department of Health. Will this be the same kind of approach? I saw the Minister for Social Protection saying he would not give an inch. Will the Minister tell us where that money will come from, as well as any further moneys that may arise? I note that €290 million, a significant amount of money, has been set aside for the Lansdowne Road process.

My second question relates to changes in the European Union in 2017. I was happy to see the Minister for Finance for once being very critical, at the most recent ECOFIN meeting, of the failure to reform the fiscal rules in Europe. They were made a long time ago by the Germans and, as we are all aware, they are quite Germanic. They have not been revised significantly since then. In the context of this discussion, will the Minister say if he has made any progress with his fellow Ministers for Finance in getting the fiscal rules reviewed? If we are facing into a period of deep uncertainty, it would make sense to amend the fiscal rules in a way that takes account of small open economies such as Ireland's. We are not yet able to benefit from the Juncker plan. We do not have very large companies based in Ireland to take up the Juncker plan in the way the Italians, French and Germans can, and indeed the English if they stayed in the European Union.

In the context of the budget catering for both capital and current expenditure, I would be grateful if the Minister could tell us the actual plans and where the extra €40 million, for a start, will be found.

Deputy Pearse Doherty: We will have to get to the meat of the amendments, but it is important to have a brief discussion on this because what we are doing here is based on the fiscal rules. I welcome the acknowledgement from the Labour Party, as we have heard from other parties, that it was wrong in its approach to the fiscal rules and that it should not have supported putting legally binding rules into our Constitution which are strangling our potential. The penny has finally dropped, but that is for another day.

Deputy Joan Burton: The Deputy has not read my comments.

Deputy Pearse Doherty: The Labour Party is now seeking to have them revised. We pointed this out in the first place. We cannot spend capital because of the fiscal rules which the Deputy argued and campaigned for and which the people voted for. That is democracy.

My question follows on from the valid question Deputy Burton raised. I previously asked the Minister about the fact the budget does not provide for the continued suspension or abolition of water charges after the first quarter of 2017. The Minister's answer was that the €53 million that would be required is not a huge amount of money in the context of the overall budget. That sum of €53 million will have to be found as, without pre-empting the decision of the House, that is likely to be its decision. Now we are told there is another €40 million on top of that. That is close to €100 million. As the Minister with responsibility to ensure we are complying with the fiscal rules, regardless of whether we like them, is it the Minister's view that this money will come from the expenditure side as opposed to looking at other sources of revenue which could accommodate the increased demands that have been agreed by the Cabinet for Garda pay and to provide for the abolition of water charges, in the event that the Dáil decides to abolish them after 31 March 2017? That question must be answered. Obviously, if some of that should be absorbed on the taxation side, we must have an understanding on that. If the Minister and his

Cabinet colleague have another source for that money, we also have to know that. The debate we are taking part in today must be genuine and we must know that the figures will add up in the end.

That brings me to my second point, although I am eager to get to the meat of the amendments. I have sent an e-mail to the Clerk of the Dáil and copied it to you, Chairman, and the clerk to the committee. I am not happy with the rulings that have been made on the amendments. They are made under your signature, Chairman, under advisement. I can see that there is a basis for some of the rulings, but other rulings that amendments are out of order make no sense. I am asking the committee to seek proper advice on this, even if that requires us consulting the Office of Parliamentary Legal Adviser, OPLA, to give legal advice as to why some amendments tabled by Deputies are ruled out of order. I have seen amendments from Deputies Burton and Donnelly that have been ruled out of order and I have seen other amendments that have been allowed and there is no logic to why this has happened. It is frustrating Committee Stage.

One example is my amendment No. 105, which seeks to delete five lines relating to funds that would be exempt from paying capital gains tax, CGT. We are told that we cannot introduce that amendment or delete those lines because it would be a burden on the Exchequer. This law or measure does not exist at this point in time. It is not as if we are changing an existing measure. This is an idea that is being put forward to the committee, so there is no change to existing law as a result of the amendment. Another amendment tabled by Deputy Michael McGrath would extend the fisher tax credit indefinitely. Some could argue that this would have a potential cost to the Exchequer. The ruling is that it does not, yet Deputy Burton's amendment, which would restrict a timeframe relating to another scheme, has been ruled out of order. There is no logic to the rulings that have been made. It is crucial that the committee gets the opinion from those who made these decisions. With regard to amendment No. 105, in particular, I am requesting that the OPLA provide legal advice to Deputies as to whether that amendment should have been ruled out of order.

Chairman: We will deal with the amendments that have been ruled out of order as we go through the sections. I take the general point, but right now we are requesting information from the Minister about the general economy and the approach to this Bill. Does any other member wish to speak on that? I am anxious to move on to the different sections. I will ask the Minister to respond to what has been said, but then we will move on to the sections.

Deputy Stephen S. Donnelly: I agree with what Deputy Doherty said and I seek a ruling from you, Chairman. Most of the amendments I have tabled have been ruled out of order on the grounds Deputy Doherty mentioned. The amendments oppose proposed changes to the tax law so, by definition, they cannot impose a charge on the State. They are unambiguously in order. This ruling has been applied to most of my amendments. Some of my amendments that have been ruled out of order will not be reached by the committee for several hours. Is there a way to revert to the Ceann Comhairle's office or to whoever is the deciding officer? The ruling out of order of very legitimate amendments is unambiguously incorrect. The salient point Deputy Doherty made is that the reason given for my amendments being ruled out of order is that my amendments would incur additional taxation on people or businesses. However, the amendments are opposing proposed changes, so they are not proposing any change to the law. They are opposing changes to the law. Therefore, by definition, they cannot impose a charge. Is there any way we can seek to have some of these decisions reviewed in light of the fact that they are clearly wrong?

Chairman: I will check before we get to them and I will revert to the committee. I ask the Minister to respond to what has been raised so far, after which we will proceed to section 2.

Deputy Michael Noonan: I will respond to Deputy McGrath's question first. The economic forecasts announced on budget day are also the economic forecasts that underpin the Finance Bill. We are proposing no change at present and we envisage no change. On the public service pay situation, the view of the Government is that the Lansdowne Road agreement provisions are still the agreement we have with the public services. We knew at the time of the budget that there were outstanding matters relating to pay in the Garda Síochána and the pay of Garda inspectors and sergeants. We also knew that one teachers' union, the ASTI, was in potential dispute at that time, even though settlements had been made with the TUI and INTO. It is also true to say, as I did in Brussels on Monday, that the Labour Court's ruling in respect of Garda pay was more generous than the Government had anticipated. The possible extra charge there needs to be quantified in addition to any moneys that are envisaged as going to gardaí from the €290 million provision for pay increases that is included in the budget. According to the Minister for Public Expenditure and Reform, the total estimated cost of the proposed Garda settlement is €40 million. In the context of a budget of €58 billion, this is within the normal swings and roundabouts of a budget. As Deputies will be aware, when we announce the monthly expenditure figures, tax returns and Exchequer returns, there are variations from what was forecast each month. Those variations are sometimes positive and sometimes negative. We do not envisage making any changes to the budget forecasts. I believe everyone in the House is familiar with those forecasts at this stage. We are still of the view that the deficit for this year will end up at 0.9% of GDP and the deficit for next year will be 0.4% of GDP. In addition, the debt ratios, etc., remain the same. Unexpected events that have not been allowed for occur in any budgetary cycle. They have to be allowed for as the year goes by. So far, the amounts of money in question are not huge in the context of a €58 billion budget.

Deputy Burton asked about capital. Given that she acted as Tánaiste when the budget for 2016 was designed, she will be familiar with the amounts for capital expenditure that are included right up to the end of this calendar year. Of course we would like to have additional capital expenditure for economic and social infrastructure. We are working towards this. The former Tánaiste will be aware that we took issue with EUROSTAT's *post facto* interpretation of rules, particularly in respect of public private partnerships. Matters we thought would be off the balance sheet were put on the balance sheet. A helpful circular that came out from EUROSTAT in September has changed the position and, at least, will give us forecasting certainty in respect of what is on and off the balance sheet for the purposes of public private partnerships. In addition, the smoothing arrangement that applies to capital expenditure, as distinct from current expenditure, provides that just 25% of the fiscal space is reckonable in the first year. This smooths out over a four-year cycle, thereby providing an opportunity to have extra capital expenditure as well. This year, the Minister for Public Expenditure and Reform's fiscal space was approximately €660 million, but because of the smoothing effect of capital, the Minister's total current and capital expenditure increased to approximately €860 million. That is an example of the smoothing effect.

Now that we are out of the corrective arm of the fiscal rules and we are below the 3% rule, some flexibility is allowable in capital expenditure for reasons of structural change or strategic investment. We are not yet in a position to avail of that because of the intricacy of the rules, but we have the potential to avail of it as we go forward. As a general principle, the bigger countries seem to get more flexibility under the fiscal rules than the smaller countries. This is something I am not silent on. Sometimes it is more effective to protest quietly and privately and sometimes it is more effective to protest publicly, as I have done. When Deputy Burton referred to what I said recently, I assume she was talking about my comments at the Tatra conference in Bratislava when I was invited to talk about the fiscal rules. I expressed my views on this issue pretty strongly on the record. If one examines the assessments of the budgets in France and Italy, as distinct from the assessments of budgets in smaller countries, one will find that the rules are applied with greater flexibility in the larger jurisdictions. I think that has to change if we want our people to comply with the fiscal rules. If we are to support Governments in complying with fiscal rules, it stands to reason that those rules must be fairly applied.

As a general principle, I agree with Deputy Burton that the economy is now at a point where additional capital expenditure is desirable and is needed to provide the necessary economic and social infrastructure. I believe this could be done without overheating the economy. I am sure the Government will evaluate that position in the course of next year with a view to enhancing capital expenditure in a variety of ways as we plan for the 2018 budget.

I think I have dealt with the points made by Deputy Doherty. I do not rule anything out of order. I do not have a role in making determinations on questions like what is in order and what is out of order, or what is acceptable as an amendment. Under the guidance of the Chairman, an amendment that is ruled out of order cannot be discussed. However, the points that Deputies would have made on that amendment, if it had been in order, can be made during the discussion on the relevant section. When we are discussing sections, I have no problem discussing proposals that would have been set out in amendments if they had not been ruled out of order.

Chairman: That is helpful.

Question put and agreed to.

NEW SECTIONS

Chairman: As amendments Nos. 1 and 65 are related, they may be discussed together.

Deputy Paul Murphy: I move amendment No. 1:

In page 5, between lines 14 and 15, to insert the following:

"CHAPTER 2

A Millionaire's Tax on Wealth

Study on Introduction of a Millionaire's Tax on Wealth

2. The Minister for Finance is to order a study be carried out on introducing a millionaire's tax on net assets exceeding €1 million and is to report to the Dáil within six months of the enactment of this Bill on the findings of the study."

I will be brief because I have to attend an important meeting of the Dáil reform committee. This amendment is pretty clear. We are calling for a study to "be carried out on introducing a millionaire's tax on net assets exceeding €1 million". We estimate, on the basis of the wealth figures from the Central Bank distributed according to the Central Statistics Office's household finance and consumption survey, that a millionaire's tax rate of 2% could raise €2.92 billion. In this amendment, we are calling for a study to be carried out so that we can see the figures involved and make choices about the kind of tax regime we should have.

Deputy Pearse Doherty: Amendment No. 65 is in my name. When I raise this issue every year, I am told that the data are not available and that it is hoped they will be available the following year or at some future point. It is important to recognise that the Department of Finance and the Economic and Social Research Institute have worked on the CSO data and are apparently going to make a presentation in this regard at a tax policy conference later this month. Will that actually be the case? Will the work of the Department and the ESRI on the location of wealth in the State be presented to the tax policy conference? The model I am proposing differs from that proposed by Deputy Murphy. We have rehearsed these issues in the House previously. Legislation has been drafted and an explanatory guide has been produced to show what a net wealth asset tax might possibly look like. The model we are advocating is based on the French model, which excludes the likes of businesses and family farms, etc. There are other exemptions as well.

I have proposed amendment No. 65 because we need a report so we can start looking at whether this is possible. Some data have been collected and are to be presented. Work has been done by the Department and the ESRI. We need to look at the options now, regardless of whether we decide to execute them at a later stage. We need to examine whether it is possible to introduce a net wealth tax of the type that is in place in other countries. This type of taxation has been proposed by Members of this House, certain trade unions and other think tanks. It is being proposed by certain trade unions and other think tanks. Each proposal is very different and contains different types of exemptions and rates, and it is not right to group them together. There is a need, at a departmental level, to examine options and the possibilities, whether it is possible, in the Department's view, and what it would look like, if it were to take place. We talk about the new reform that is yet to take place, given that the budgetary committee has not had the chance to get its teeth into the process. If it is to be serious and genuine, these are the issues we need to explore. We need to have debates based on clear facts, not based on my assumption interpreting CSO data as to what I think could possibly accrue. Our debates must be based on the economists in the Department of Finance working with the data that exists and publishing it so it can be tested robustly by others in the sector. Then, we can make a call on whether it is possible and whether the data can be collected.

My amendment refers to six months to examine a report and the options available for the introduction of a comprehensive asset tax, otherwise known as a wealth tax. I have sought that the report should include options for the collation of data necessary for the assessment of such a tax, the definitions of categories of wealth to be included in such a tax, proposals for the assessment and collection of the tax proposed, and estimates of potential revenue at various taxation rates. This is not alien to us. Ireland used to have a wealth tax. We got rid of it. It was costing us nearly as much to collect the tax as we were bringing in. This was before we had online systems and the Internet, when everything was done by pen and paper. It was possible and definitely desirable that we follow this direction. All we are asking is that the Department's resources be deployed to follow on from the work it has done with the ESRI, which follows on from the work the CSO has done regarding identifying the location or concentration of wealth in Irish society.

Deputy Michael Noonan: The Government has no plans to introduce a wealth tax, although all taxes and potential taxation options are constantly reviewed. Wealth can be taxed in a variety of ways, some of which are already in place. Capital gains tax, CGT, and capital acquisitions tax, CAT, are, in effect, taxes on wealth, given that they are levied on an individual or company on the disposal of an asset in the case of CGT or the acquisition of an asset through a gift of inheritance in the case of CAT. Deposit interest retention tax, DIRT, along with similar taxes on the income from financial investments, is charged at 41% with some limited exemptions. It is intended to reduce DIRT to 33% over a four year period in the Finance Bill. There is a stamp duty levy on the transfer of shares which yielded €424 million in 2015. The local property tax, LPT, which was introduced in 2013 is a tax based on the market value of residential properties. I note in this context the report by the Think-tank for Action on Social Change, TASC, published on 4 November 2016, which stated:

> An annual property tax is a tax on capital/wealth and as such contributes to social equity. The new Irish property tax has generous thresholds but is also a very stable tax. It is hard to avoid and so is a sound source of revenue for the State. Taxes on property in Ireland are about the average in OECD34, but are below average for English speaking countries.

The domicile levy introduced in 2010 also constitutes a form of wealth tax. It is aimed at high wealth individuals with a substantial connection to Ireland, whether or not they are tax resident, to ensure they make a tax contribution to the country in a year of at least €200,000. In 2014, 12 individuals paid the levy, yielding €1,986,858.

Comprehensive data on household wealth in Ireland includes assets and liabilities. It was published for the first time in 2015 by the CSO. The data was collected across the eurozone according to a standardised methodology and indicate that wealth inequality in Ireland for 2013, as measured by the Gini coefficient, is lower than the eurozone average. The results also show wealth is less concentrated at the top of the distribution here than the European average. Central Bank analysis of the data also indicates that while wealth inequality has increased since 2011, it is lower than in 2006, the earliest period for which data are available. Data gathered by the CSO as part of the Household Finance and Consumption Network, HFCN, were not calculated for the purpose of calculating the potential yield from a wealth tax but to collect general information on the financial situation and behaviour of households. As part of the joint research programme agreed by my Department and the ESRI covering macroeconomic and taxation issues, a research project involving detailed analysis of household wealth distribution and taxation has been undertaken. This project, based on the household finance and consumption survey published by the CSO, is nearing completion and the results are to be presented at the annual tax policy conference hosted by my Department. This is the point the Deputy raised in particular and the commitment in my speaking note is that it will be done at the tax policy conference.

This year's conference is being held in Dublin Castle on 23 November. I expect all interested parties would attend the conference and engage in the debate. My Department will monitor and consider any additional information and data that comes to light and will continue to examine potential taxation sources on an ongoing basis. There is no doubt in my mind that there will be significant difficulties in determining the base, the types of assets to be included, the potential yield and, most important, broad acceptance for such a tax from the wider public. As the Deputies will appreciate, while it is easy to propose the introduction of new taxes, it is often more difficult to achieve wider acceptance for the introduction and operation of such taxes. Given that research on wealth tax is being carried out by my Department and the ESRI, I do not consider it is necessary or appropriate to have another parallel stream of work, as suggested by Deputies in terms of the preparation of an additional report. I am not disposed to accept the amendment, and Deputies will understand that the commitment given previously will be fulfilled and the report along the lines being sought will be presented at the tax conference at Dublin Castle two weeks from now.

Deputy Pearse Doherty: Could the Minister give more detail on the report that will be presented? I presume the Minister has seen the report, which is being worked on by his Department and the ESRI. We are asking for a net wealth tax. Every year, we have this discussion on local property tax, CGT and CAT. The Minister is reducing the latter two. The local property tax is not a net wealth tax. Let us not rehash the whole debate. If I had a mortgage of €200,000 and my house was worth €100,000, I would still have to pay the property tax. It is the opposite of a net wealth tax. People are paying tax on a debt that they have. It is not an asset but a liability. The question is whether the report will be on a net wealth tax. We have proposed a very particular type of net wealth tax that could be introduced.

The Minister mentioned TASC. We could be here until tonight selectively quoting TASC and what it has said about a property tax. Tom McDonnell, the author of a TASC-NERI, Nevin Economic Research Institute, working paper in 2013, proposed a model of wealth tax. The TASC website states:

> The proposed model of wealth tax would only affect those with over €1 million in assets (the top one or two per cent of the population) and would have ceiling provisions to protect people with low incomes. Based on cautious estimates such a tax could raise hundreds of millions annually and would have less damaging impact on society and the economy than many other budget adjustments being considered.

While the Minister can quote TASC on property tax, this is about a net wealth tax. Can the Minister give an indication to the committee how comprehensive the paper will be? Will it address the possibility or the options available for the introduction of a comprehensive asset tax or a net wealth tax such as I have proposed? I have written legislation but cannot table it in the House because of the constitutional prohibition on Opposition Members bringing forward proposals that could incur a cost on the Exchequer or a cost on the population. The legislation is there and can be viewed by anybody. There is also the proposal that has been put forward by Tom McDonnell and TASC in the working paper. Is the paper on a net wealth tax or a wealth tax, as the Minister would define it, that is, CGT or CAT? I do not dispute that they are forms of wealth tax but they are not the type of wealth tax it is proposed to introduce.

Deputy Michael Noonan: I am not proposing the introduction of a wealth tax. I do not favour a wealth tax. There are, as I outlined in my initial reply, various taxes that apply to wealth already in the Irish tax code and I am not proposing to change those either. The paper, which will be presented in Dublin Castle on 23 November, is a joint paper between the ESRI and the Department of Finance. It will aim to provide an analysis of the wealth holdings of Irish households and the potential impact a wealth tax would have if applied on the existing structure and household composition. The objective is not to propose any particular tax model or design but rather to inform the debate on the taxation of household wealth. The joint ESRI-Department of Finance paper will use the comprehensive survey data collected by the CSO in 2013 as part of its household finance and consumption survey. This survey provides, for the first time, comprehensive data on household ownership of assets and liabilities. Assets include such items as property, self-employed business values and financial assets. Liabilities include mortgages and short-term debt. The survey also provides more general information on income, employment and household composition. That is the nature of it and it will be available in a couple of weeks' time. It is there as a source for the formation of any particular policy by any Deputy or any group.

Chairman: Is Deputy Doherty pressing the amendment?

Deputy Pearse Doherty: I will withdraw the amendment with the option of re-introducing it on Report Stage, which probably will be after the publication of the work being done by the

ESRI and the Department. I acknowledge it has been a step forward. I do not think it would have happened if it was not for myself and others continuing to put this on the political agenda. Hopefully there will be comprehensive data we can look at to ascertain if this is a potential source of income that is socially just and should be explored.

Amendment, by leave, withdrawn.

Chairman: Amendment No. 2 is in the name of Deputy Paul Murphy and Deputy Richard Boyd Barrett. It is a new section and amendments Nos. 2 and 3 are related. Deputy Doherty is moving amendment No. 3. Can we dispose of amendment No. 2?

Amendment No. 2 not moved.

SECTION 2

Chairman: Is section 2 agreed to?

Deputy Pearse Doherty: No. Will the Chairman bear with me?

Chairman: Does the Deputy wish to move amendment No. 3?

Deputy Pearse Doherty: Just on section 2-----

Chairman: We are dealing with section 3, amendment No. 3.

Deputy Pearse Doherty: No, before we go onto section 3, I will speak on section 2. The Chairman has disposed of amendment No. 2 but section 2 is the section that reduces the universal social charge.

Chairman: Yes.

Question proposed: "That section 2 stand part of the Bill."

Deputy Pearse Doherty: I am opposed to section 2. I believe it is a mistake by Government. I acknowledge the reductions in the universal social charge are very small and that people, particularly low and middle-income earners, are feeling the pinch and have been for many years as a result of both this Government's policies and the previous Fianna Fáil Government's policies. There are better ways to relieve the burden on them by getting rid of some socially unjust taxes such as property tax, the household charge tax and water charges, which would give the same benefit, more or less, to all income earners. The Minister notes that the proposal before us will have a partial-year effect of about €335 million net in tax. The full year effect is €380 million. We need to have this debate in the context of the Government's policy of abolishing the USC at a point in time and that it follows on from the reduction of USC last year. The policy, which has been more or less supported by the majority of parties in here, including parties on the left, is the wrong policy. I am saying this very clearly. I sat on the banking inquiry and one of the clear things in terms of the banking inquiry was that we had a banking crash that was the result of reckless lending and practices. As a result of other actions, however, which we will not go into here because they have been well rehearsed, there was also a financial crash and the State's revenues were of a very precarious nature. During the Charlie McCreevy period, income taxes were reduced but the overall level of taxation did not reduce. One can see in a very clear graph that while direct income taxes were reduced, they were replaced with indirect taxes or property taxes and stamp duty taxes. I made the point earlier that at the height of the boom, stamp duty was equivalent to the amount of corporation tax we have brought in. We have seen a bonanza in terms of the amount of corporation tax this State has seen in the last number of years; it has increased by over 50% in a very short period of time. We have had a huge increase in corporation tax. Every single additional cent paid in corporation tax is welcome and we need to grab it with both hands but it would be folly to think it is a very stable form of taxation because it is not. When there is such a dramatic increase, there can also be a reversal. It is not just that there can be a reversal, there is also a potential volatility because of the concentration of that tax. To rehearse the statistics, 40% of corporation tax in 2015 was paid by ten companies. That is the equivalent of something like €3 billion. Ten CEOs could decide to strip away 40% of our corporation tax base in the morning. Please God, that does not happen. Please God, foreign direct investment continues to stay here and that companies continue to invest here, create jobs here and pay their taxes that are due here. We have to be very conscious that we have concentrated a large part of our revenue income in a small number of companies that are obviously very profitable and therefore pay a large amount of tax. Regardless of what political pledges there were in the past, the potential for change at an international level, particularly at American level, is now greater than ever before because of Donald Trump's commitment. The reality is that for the first time ever, the Republican Party holds the presidency - which was able to block proposals in the past - in addition to a majority in the Senate and the House of Representatives, which leads to the likelihood of them being able to effect this type of change. It is change that has to happen in the House of Representatives and Senate but with the support of the President, there is greater potential of this type of change taking place. Not only that, we have other issues in terms of trade agreements on which the President-elect was very vociferous. There is the potential for this little country of ours being caught in the perfect storm. To our right, we have Britain, which is exiting the European Union, with massive uncertainty about what will happen there. Britain is one of our largest trading partners and we are unsure whether tariffs will be imposed, whether there will be a hard Brexit and what is the impact for Border communities. To our left, across the Atlantic, we will have a Republican President who has made very clear commitments. A central part of his election campaign is to bring American companies that are located here back to his own country and to do that through a very lucrative tax incentive package.

Some of those things are outside our control. We could sit here with our hands on our faces and lament how these things have happened, but they are outside our control. The one thing we must do is to be conscious that this perfect storm could be emerging. In two years time, when Britain exits the European Union and tax changes have potentially taken place in the US, we could be caught in that perfect storm. Therefore, we need to make sure we do not erode our tax base in the way the Minister is proposing. What he is proposing in this year's Finance Bill is stripping away €390 million of income tax and USC, but he has made the commitment that he will continue to do that year after year. Let us be clear about this. If we leave USC as it is, by 2021 it will bring in €5.6 billion every year. When we look at an election cycle of five years, we are talking about €27 billion or €28 billion over that period. This is money we may need to inject into capital expenditure to try to get our country back up, if we are caught in this perfect storm, or to spend on tax measures in order to give incentives to people who are exporting or to entrepreneurs who want to create jobs, given we may lose jobs in this country due to issues which are outside our control. On that basis, I believe section 2 should be opposed.

While I am sure the Minister will say how small this is, and all the rest, the point is that if he keeps on chipping away at the wall, the wall disappears in the end. That is what is happening. The Minister is taking away the most stable form of taxation and one of the fairest forms of taxation, which actually applies tax on the basis of income. We have argued in the past that when the USC was introduced, it replaced two existing taxes, the health levy and the income levy. When it was introduced, it brought in €400 million of net additional taxes because we got rid of two other taxes at the time. The complete unfairness of the USC at that time, when it replaced those two taxes, was that it was introduced under the Fianna Fáil Government at a level where it kicked in when a person earned just over €4,000. That is where the unfairness lay.

I acknowledge the fact that this Government, very much as a result of the pressure we have continued to put on it, moved significantly to bring those workers, who are the lowest income earners in the State, out of the USC tax net, and in each Finance Bill we have seen a gradual increase in that threshold from €4,000 to the current threshold of €13,000. We argued it should go up to the minimum wage and that it would only involve a small amount of money to bring individuals on the minimum wage out of the USC tax net.

This is the wrong decision; it is the wrong policy. There are variants of that policy being argued by Fianna Fáil and the Labour Party. Their two policies argue that we should get rid of over €2 billion of taxes every year. We cannot afford that. The risk is far too great. I ask the Minister to pull back from this and not to continue with the stated intention, which he mentioned on budget day and a number of times before that, to continue to get rid of USC. That would leave our country exposed to external elements outside our control, not least the fact that we potentially have very volatile corporation tax receipts in the coming years.

Deputy Michael McGrath: To give the Fianna Fáil perspective on this issue, I disagree with Deputy Doherty's assessment. It is important to point out the cost in 2017 of the USC reductions is €335 million and is more in a full year, but the cost to taxpayers of not indexing the income tax system in 2017 is €385 million. If we were to do nothing whatsoever in respect of income tax reductions in this budget, then working people paying income tax would collectively be paying an additional €385 million in 2017. At a time when we have an economic recovery of some form, I do not believe that is an acceptable situation.

This measure is very modest. It is not even bringing this to a position where we are standing still overall because some people are enjoying salary increases and so forth, and more and more of people's income will creep into the higher rate band. If their salary goes above €33,800, for example, then more money is being captured through the non-indexation of the system. This is a very modest measure. It brings the marginal rate of tax on income up to €70,000 down to 49%.

I put on the record on budget day that we disagree with the Government's overall strategy on USC. We do not believe it is right or sustainable to seek to abolish the USC over the lifetime of this Government and our view on that is copper-fastened by more recent events and the economic uncertainty we spoke about earlier. I believe it will be unavoidable over the coming years to address the entry point issue to the higher rate of income tax, which is exceptionally low in Ireland compared to other OECD countries. However, it is important to put this reduction in context. The real context is that, before the crisis, the amount of the overall tax take accounted for by income tax was under 30%; it is now over 40%. Therefore, we have seen an enormous increase in the burden of income tax put on the shoulders of taxpayers. The fact that there is a policy decision not to index tax bands and tax credits means the Government would be collecting almost €400 million more anyway next year. This goes a long way to offsetting that but it does not even fully do that. If the Government was not to do this, there would in real terms be a very significant increase in income tax for workers in 2017. That is not a position we believe could be defended. The overall gain is capped at some €350 for an individual. It is quite modest and, in our view, it should be supported.

Deputy Michael D'Arcy: I also disagree with Deputy Doherty. I want to put on record that the USC was also reduced in last year's budget. The objective was that the significant burden of income tax would be reduced so people would have more spending power, and that proved to be correct. The USC rates were reduced, people spent more and we got more people back into work. To put this in context, at the peak of the recession the income tax take was over €13 billion whereas the expectation is for income tax in 2017 to be over €20 billion. That is the level of increase in income tax for taxpayers.

Four of us who are present sat through the banking inquiry, which was long and tortuous. There is some merit in what Deputy Doherty said about not eroding the tax base but there comes a time when people have to be given the opportunity not to be paying all of the tax. As Deputy McGrath said, the amount here is modest at €300 million plus - it is not billions. I am one of those who does not want to see the tax base eroded. Nobody wants to go back to the insanity of what happened from 2008 to 2011. However, at some stage, the people who are paying income tax have to be given the opportunity of a break. This is a small, modest break. Deputy McGrath noted that people hit the higher rate at €33,800. That is one of the lowest points at which a higher rate applies in the OECD.

Deputy Michael Noonan: I thank Deputies for their contributions. Certainly, high marginal tax rates have an effect on employment. If one taxes something, one tends to get less of it, and if one reduces taxes on something, one tends to get more of it. We tax tobacco products because we want people to smoke less. We tax alcohol because we want people to be more moderate in their use of alcohol. If one puts penal taxes on employment, I cannot see why there would be any other economic effect than one gets less of it. Once the marginal tax rate goes over 50%, it begins to affect employment levels, it begins to affect the propensity of emigrants to return home to Ireland, etc. We have recited all these arguments previously.

I do not seen much difference between bringing down income tax rates and removing USC. This is the third year that we have made some reductions in USC. I started there because USC was brought in as an emergency tax to top up the take from personal taxes during the crisis and, because it was the "last in" as an emergency tax, it should be the "first out" in terms of reductions.

Of course, the Deputies are quite correct. This is a very small reduction because we did not have many resources on this occasion. The resources we had available on budget day were used by and large to improve public services by increasing the budgets and the allocations for the public services with which the Deputies are all familiar.

Deputy Michael McGrath is correct that the cost of these measures are €379 million in the first year and €462 million in a full year. Non-indexation accounts for €345 million on the first year and €400 million on a full-year basis. There is a match between the two on this occasion.

It is the third year of reductions and we would hope that there will be further reductions in future years. In addition, I have always said that the Government's plan to continue to phase out USC will be dependent on having the necessary fiscal resources. We have them this year and I hope we will have them next year.

Deputy D'Arcy is correct. Income tax and USC are expected to raise over €20 billion in 2017, that is, following the impact of these changes, from the position of €13 million in the year that he referenced. It is quite a big tax take.

On the issue of the over-dependence on corporation tax, once we introduced the changes in our corporation tax regime in the Finance Bills in 2013 and 2014, there has been a step change. The Revenue is of a different view now. Last year, the advice from Revenue was that a portion of the corporation tax take was once off and possibly transitory. It is of the view now that it is a new base and that we will continue to enjoy this flow of corporation tax in future years.

The base is broadening and some of the additional tax is from smaller companies paying corporation tax because their trading position has been quite good in recent years and profits have been quite good. Of course, the international changes in corporation taxes have enhanced the tax take in Ireland. We have to be cautious of any particular tax. We have to react if there are any signs of fragility in any particular major tax but so far, there is not such a sign of fragility.

On the impact of whatever changes might be made in the United States, we will have to wait and see. I have spent all my life listening to United States election campaigns where there was a commitment always to reform corporation tax and I have yet to see tangible measures. It has been so dating back as long as I have been in politics, and I was first elected to a local authority in 1974. It goes back a bit.

If one looks at the commitment President-elect Trump has made to reduce corporation tax to 15% from the 35% on average that is now applied in the United States and how that might impact on the multinational sector, the repatriation of profits is the primary issue with foreign direct investment in Ireland or elsewhere in the world or elsewhere in Europe or in the UK. At present, the disincentive is that in setting up overseas, if one repatriates profits, one pays 35%. If one reduces that to 15%, it seems that is not a disincentive for setting up abroad. As a matter of fact, it could work the other way because one would pay much less tax if one repatriates profits from Ireland in the future. We will see. I do not know what the particular mix is. US corporate tax, like a lot of corporate tax codes, is quite complex and when one looks at the various legitimate reductions that can be made, it becomes even more complex. Then they have special zones as well where different tax regimes apply.

We will have to wait and see. The Revenue will constantly evaluate these matters. So far, there seems to be no great anxiety among foreign direct investors here from the United States and IDA Ireland states the pipeline is extremely strong at present.

Deputy Pearse Doherty: The Minister mentioned that high marginal tax rates have an affect on employment yet there is no data to suggest that is the case. Indeed, the ESRI, which, I am sure the Minister will acknowledge, is a reputable body and does not have a political axe to grind, has stated before the Committee on Budgetary Oversight that this notion should be tested and made a follow-up point that sufficient investment in child care would have a bigger affect on employment than reducing marginal tax rates. This is what frustrates me. The Minister can make statements as if they are true to suit the narrative that he wants to peddle at any point in time but he must test that and tell me, if he does not mind, why the ESRI is wrong in its view that this notion needs to be tested. The ESRI is not saying the Minister is correct in this regard. This is, in my view, a narrative that has been created by Government, and, indeed, by some parties in opposition, to suit their agenda of reducing the tax base in terms of direct income tax.

When the Minister talks about reducing the USC, we know the effect of that. We know who benefits most from such chipping away, whether it is the Minister's policy, Fianna Fáil's policy or the Labour Party's policy. The way to do this, obviously, is to give a bit now and a bit there. One does not see the quantum of it but after a couple of years it is no longer €400 million but a couple of billion euro that the Minister has stripped away from the tax base. We can see from the Department of Finance's paper presented to the Minister that it will narrow the tax base, that it will be regressive, that it will have limited benefits and that those who will benefit the most are those with the highest incomes.

The Minister also makes comments repeatedly. The Minister will not address the fact that he has made different comments to suit other narratives in the past. He states that this is an emergency tax. He tells us again today that it is an emergency tax. Then why did the Minister mislead the House on previous occasions when he stated that this was never introduced as an emergency tax? The Minister is on the record of the House as saying that. The Minister said that at a time when he believed that the USC should not be reduced. The Minister has completely flip-flopped and now he says that this is an emergency tax, but he will not deal with the facts of this here, which is that this measure which, as I said, brings in €4 billion now and which will bring in €5.6 billion each year by 2021, replaced two other taxes.

The rationale behind the introduction of this tax at the time by the late Brian Lenihan was twofold. First, it was to capture those on very low incomes. He genuinely believed in the principle that regardless of one's income, one should pay some amount of tax despite the fact, we would argue, that they do pay some amount of tax through indirect taxation in VAT, etc. However, that was the late Brian Lenihan's notion at that time and that is why he introduced it at a level of €4,004.

The second part of the rationale behind the introduction of the USC, which led to the progressivity of the USC, is that it captured all incomes. There was no way of sheltering income from the USC. That is why the wealthiest in society like the idea of getting rid of the USC because it was a vehicle where they actually got taxed on their income regardless of where it was and they had no ability to write that income down through different tax expenditures. That is where the USC was very progressive and why we should hold onto a part of it.

The Minister creates a narrative to suit his own agenda. He told the Seanad and it is on the record that this was never introduced as emergency tax. Can he tell me now, if we are to take his word today that it is an emergency tax, why he misled the Seanad at that point in time? Can he tell me why his view of the ESRI statement made to the budgetary committee is that high marginal taxes have an impact on employment? The arguments he is putting forward today could have been played in an episode of "Reeling in the Years". They are the exact same arguments that Charlie McCreevy put forward - they are taken completely from his script. At that time, I am sure the Minister for Finance believed that was the right thing to do. Unfortunately, history has told us, and our recent past has told us, that it was the wrong thing to do. With the benefit of hindsight, we know it was wrong.

Fianna Fáil rightly points out that taxation levels at a certain point were 30% of overall tax and are now 40%. It wants to hark back to the time of McCreevy and forget that the time of McCreevy bust the bloody country. We had a major fiscal deficit outside of the banking deficit and outside the fact that billions of euro from the National Pensions Reserve Fund were pumped in to rescue banks. There was a major hole in our public finances because of the unsustainability of our tax base.

Regardless of what Donald Trump, the US Congress or the US Senate do in the future, and whether they do anything with corporation tax, we need to be conscious of something, namely, at this time, 40% of our corporation tax is paid by ten companies. In 2009 21% was paid by ten companies but by 2015, this had become 40%. We have seen a dramatic increase in concentration in corporation tax receipts. For any Minister for Finance, that should be a warning shot across the bow. Please God they do not leave, and please God some other country does not decide to engage in a race to the bottom and draw these companies out of our country. However, we need to be conscious there is a risk. The point I am making is that those ten companies make up the same amount of tax revenue as stamp duty did at the height of the boom. If this goes belly up, we will be asked time and again by people in the media and elsewhere why we did not see the warning signals. We saw this with the financial crash in the past, where we had a concentration of tax receipts from what was potentially an unsustainable source. We have the same thing at this time. When 7% of the overall tax base is located in ten companies, that is a warning shot.

The presentation that is being provided by Government and Fianna Fáil is that this is minor. It is minor in terms of the benefit that people will receive, which will mean a couple of euro extra in their pocket. However, in terms of the overall figures, the Minister referred to over €440 million per year that will be stripped out of the tax base. Yet, we will hear week after week, month after month, over the next year that we do not have enough money to pay for additional consultants or nurses to deal with the fact we have more than 400 people on hospital trolleys. The Minister will tell us he does not have the extra few euro to pay our teachers for the supervision of our children in secondary level schools-----

Chairman: Deputy Doherty-----

Deputy Pearse Doherty: -----or we do not have enough money to house the homeless or to build the new houses that are needed to deal with the housing crisis.

Chairman: I ask the Deputy to conclude.

Deputy Pearse Doherty: This is very relevant.

Chairman: It is relevant but it is past 11.30 a.m. and we are finishing now.

Deputy Pearse Doherty: With regard to the budget, it is the Minister's view that it is easy to decide we do not need €444 million of tax money this year, next year and every other year because our services are somehow fine. This would be somehow justifiable if we did not have a crisis in health, a crisis in housing and a crisis in homelessness, and if we did not have workers out on strike and balloting for industrial action because the Government will not pay them for work they are doing. This is despite the vulnerability in the concentration of corporation tax, despite the fact Brexit has thrown up serious challenges and despite the fact that what the American Administration may do could erode a substantial part of our tax base.

Chairman: I ask the Deputy to conclude.

Deputy Pearse Doherty: This is a very bad move. The Minister has presented as facts what are not facts. He has changed his argument to suit a political narrative and to suit some type of person in the Fine Gael headquarters who decided, "This is a good idea. Let us print up some election posters saying 'Abolish the USC', and the country is somehow going to be fine despite getting rid of €5.6 billion from our tax base every year". It is not. It is wrong. The Minister is wrong and he should withdraw from this. Please God the vulnerabilities I have talked about do not materialise but it is our job to make sure we manage the public finances in a prudent way. We need to be conscious of the risks that are there.

The last point I will mention-----

Chairman: We are obliged to end this section of the meeting. We are past our time. I am suspending the meeting now until 2 p.m. when we can resume this debate. We have to be out of this Chamber for 12 noon. Deputy D'Arcy will be the next speaker.

Sitting suspended at 11.35 a.m. and resumed at 2 p.m.

Deputy Michael D'Arcy: To pick up where we left off, we were listening to a Sinn Féin member. The hypocrisy of the position of Sinn Féin is amazing. I will read from an article on the Sinn Féin website. The headline reads, "Sinn Féin publish Dáil motion calling for the abolition of Universal Social Charge". I know that positions change depending on circumstances, but this is purely populism and nothing else. At that stage, it looked like that was the thing for Sinn Féin to do. Now, it is water charges and, next week, it will be something else. It is all for Sinn Féin to continue its populism. I will read out another point from the article, "The Universal Social Charge breaches the fundamental principle of progressive taxation - that those who have more should pay more". Our income tax system is based upon a progressive system. I will read out another point, "Sinn Féin is calling on the Government to abolish the Universal Social Charge and to ensure that all taxes and social insurance contributions are raised progressively so that those who have the most pay the most". Again, all of the OECD analysis of the Irish taxation system shows that that is already the case.

I ask Deputy Doherty not to be as blatantly political. There are 130 or 140 proposed amendments to this Bill. We will be here for six or eight weeks if we keep going like this. We have dealt with one amendment in three hours. There is work to be done and I want to get on with it.

Deputy Pearse Doherty: I would have appreciated if Deputy D'Arcy had addressed the motion in full. If he wanted to give full information for accuracy, and I have made this point in the Dáil Chamber, what it actually called for was the abolition of the USC and the reinstatement of the health levy and the income levy. The point I made earlier is that when the previous Government of Fianna Fáil introduced the USC, it kicked in at a level of €4,004. That is the reason behind the statement that Deputy D'Arcy read out in terms of the USC's lack of progressivity, because what it replaced were taxes that did not kick in at that lower level. That is why we opposed it and wanted to reintroduce the existing measures. That is just a point of accuracy. That being said, it is interesting that when we argue that €462 million worth of tax should be imposed or maintained on the populace, we are accused of being populist. Usually, a person is accused of being populist when he or she is trying to cut taxes or do something that is very popular. We know that abolishing the USC was a popular issue with many people. However, in the debate that took place, people realised that it was not affordable.

The last point I was going to make before the suspension was about the suggestion that has been put forward that abolishing this measure in the Finance Bill is better than the non-indexation of tax bands, and that if we did not do anything in the Finance Bill, people would be worse off. That is not true. Again, let us be accurate. We would have to introduce a measure in the Finance Bill to index taxation bands. If we did nothing in the Finance Bill, then we would have €462 million of revenue in a full year which we as a State could decide whether to inject into vital public services. It is not a case of either-or. Again, this is a presentation of statistics or comments being suggested that they are facts, and they are not. Deputy D'Arcy said that we have spent a lot of time on this. That time has not been spent on this section as a whole. Let me be clear. This section costs the Irish State €462 million every single year from here on in. How many minutes have we spent on it? About 20 or 30 minutes. If the Deputy does not want to spend ample time discussing nearly half a billion euro of tax cuts in a full year every year, I would suggest that he is in the wrong job. That is what happened in previous Governments when we cut taxes to an unsustainable level without due regard to the consequences that would flow from it.

Deputy Michael D'Arcy: I wish to respond because Deputy Doherty has made a lot of statements. The Deputy spoke about the facts earlier this morning. The fact is that for the past three years, the USC was cut and the people had the opportunity to spend the money as they got it back. That brought in more money. The Sinn Féin position is tax, tax, tax, and spend, spend, spend. It ignores the impact that has on the economy. The Deputy talks about money and numbers. He is able to ignore the wealth taxes that are there that the Minister spoke about earlier, and will ignore the fact that the property tax is a wealth tax and that capital gains tax and capital acquisitions tax, CAT, bring in nearly €1 billion. The Deputy wants to ignore that those are wealth taxes. It is as if we will forget that amount of almost €1 billion. The Sinn Féin position on taxing wealth is it should only apply to the "wealthy", the evil people over there with properties worth more than €1 million, etc. It wants to bring in a wealth tax but ignore the facts. Sinn Féin's policy equates to cloud cuckoo land economics. It is nuts.

Deputy Paul Murphy: Well said.

Deputy Michael McGrath: I am in absolutely no rush and I want to respond to a point by Deputy Doherty. We can keep going over and back, if Deputies wish, or we can try to get through our business. The point I make about non-indexation is correct. If the universal social charge, USC, reduction was not in the Finance Bill and we did not provide for the indexation of the system, the Exchequer would have more than €400 million extra by way of revenue and it could make whatever decision it wished on that but it would effectively represent a tax increase on people's income. That is the point I was making. There is no policy decision to index the tax system. It would be an increase by stealth. It is the broad point I am making. The reduction in USC in overall terms negates the non-indexation of the system. One could argue there would be winners and losers and there would be the question of who is benefiting from indexation and the USC reduction. That is in the round and one more or less cancels out the other. Otherwise it is a hefty tax increase that will give the Government and the Oireachtas more scope for choices, which I accept, but the fundamental point holds true.

Deputy Michael Noonan: I am not sure I can shed much light on the discussion but I might add a little heat. I was asked if there was economic evidence to support the theory that high marginal tax rates have an adverse effect on growth and employment. The large body of economic literature documents the evidence on the responses of different groups to the tax schedule and, in particular, the marginal tax rate. The main point that emerges from the literature and which is summarised very comprehensively in the Mirrlees review of 2011 is that taxes reduce labour supply. With regard to particular groups, the response to the tax rate is largest for women with school-age children and older workers. High marginal tax rates may also discourage low earners from taking up employment. There is documentary evidence in the literature assessing the impact of different levels of tax on the labour market.

Deputy Doherty asked if it is semantically correct to call the USC an emergency tax. It was certainly a tax introduced in response to an emergency, so it is legitimate to call it an emergency tax in that respect. Additionally, it replaced the income levy, which was certainly introduced as an emergency tax. It was introduced in response to an emergency and replaced an emergency tax, so I am within my rights to describe it as an emergency tax when I discuss it on occasions such as this.

Everybody is entitled to change his or her mind and there has been a major change of mind from Deputy Doherty. As Deputy D'Arcy referenced, there was a Private Members' motion on 29 March and 30 March 2011, approximately three weeks after a new Government had taken office in the second week of March 2011, and in the usual way it proposed:

> That Dáil Éireann:
>
> > recognises that:
> >
> > > the universal social charge is an unjust and regressive tax, bearing down most heavily on those least able to afford it;

The motion recites all the evils perceived by Sinn Féin of the universal social charge and, in the usual format, it calls on the Government to "abolish the universal social charge" and, as the Deputy rightly states, to reinstate the health and income levies in place of the charge. In 2011, the Deputy and his colleagues regarded the universal social charge as unjust and regressive, calling on the Government to abolish it. The party wanted to do it in one fell swoop and overnight, which was fairly ambitious at the time. Not only did the Deputy sign the motion himself but it is signed by Deputies Gerry Adams, Michael Colreavy, Seán Crowe, Dessie Ellis, Martin Ferris, Sandra McLellan, Mary Lou McDonald, Pádraig Mac Lochlainn, Jonathan O'Brien, Caoimhghín Ó Caoláin, Aengus Ó Snodaigh, Brian Stanley and Peadar Tóibín. The Deputy is entitled to change his mind and they say consistency is the hobgoblin of the small-minded. All I want is for the Deputy to admit he has changed his mind and that when the Government has now progressively decided to reduce the universal social charge with a view to eventually abolishing it, we are not 100 miles away from the position he adopted in 2011 and which his party has now moved away from.

While we are on the discussion about inconsistency, I remember in those days the Deputy was a very strong advocate of wealth taxes but it was dropped from the second last draft budget introduced by his party. Now he is back to talking about it again but it was not in the draft budget. Will the Deputy clarify if he is for or against a wealth tax? Is he for it on some days of the week and against it on other days of the week? There is an inconsistency about the party's tax position.

Deputy Pearse Doherty: I will respond to that without looking to lengthen the debate, as I want to get into it. This is a very substantial issue and it is very clear from the Government's replies that it is coming under some pressure to justify why it is getting rid of €462 million of our tax base, given the crises we have in this area. I stand over the motion we put before the Dáil. To suggest the motion we put before the Dáil is in any way similar to what the Government plans to do with the USC stretches credulity to the limits. As the Minister rightly stated, we proposed to reinstate the income and health levies, bringing in €3.6 billion. The USC took in an additional €400 million because it was levied on individuals with incomes as low as €4,004. I acknowledged earlier, as we raised the issue and the Government decided it was unjust, that the threshold has been moved to €13,000. It was done at an expense to the Exchequer that ran into hundreds of millions of euro. That is why the Fianna Fáil proposal at that point was unjust. That is why we wanted to revert to the system that was there.

We have now seen progress in moving it to that level and that was Sinn Féin's intention in the first place. One of the next amendments I have is to move the threshold further so that everybody earning below the minimum wage would be taken out of the USC tax net. Crucially, over €5 billion of income from the USC would be retained by 2021. The Government's proposal is to get rid of the vast amount of that income and not replace it with anything else. That is the position and Sinn Féin has been consistent in that regard.

The Minister mentioned the "semantics" of it being emergency tax because it was introduced at a time of emergency. I will quote the Minister directly. He stated "I should point out that it was never intended that the USC would be a temporary measure". That is a reference to a "temporary" rather than "emergency" measure. The point I made earlier is that the narrative of the Government has changed to suggesting somehow that the USC was always supposed to be a temporary measure or it was introduced in an emergency; it was just to get us out of the difficulty we were in, it is suggested. The USC and its level of tax base was required to fix the problems arising from reducing taxation, which happened during the McCreevy era and left us with an unsustainable base.

We are discussing a large quantum of money at €462 million in a fell swoop and the Government plans to repeat this next year and for two subsequent years. This is all about options and I appreciate what Deputy D'Arcy has said in that it will put some money in people's pockets that could go into the cash registers of businesses in the community. I believe there are better and fairer ways to put money in people's pockets. The Minister mentioned the high marginal tax rates and the impact being felt most acutely by mothers of school-going age. The point made by the ESRI was that we need to challenge the idea that marginal tax rates are a barrier to employment. The view is that proper substantial investment in child care would have a greater impact in terms of employment.

Now, the Government is moving in terms of child care and that is to be welcomed. However, the Government is not spending €462 million on child care. We need to ask ourselves certain questions as legislators. If our desire is to create more employment, then which would have a greater effect, a €462 million child care package to help people to get back to work and reduce the cost of living or €462 million as part of a process of eradicating tax breaks? I believe it is wrong.

I call on the Minister to directly answer the point I made earlier. The Minister said: "I should point out that it was never intended that the USC would be a temporary measure." Does the Minister stand over those comments made in the Houses?

Deputy Michael Noonan: Deputy Doherty constantly misquotes what happened. His charge before the break was that I had said that it was not an emergency measure.

Deputy Pearse Doherty: Yes, the Minister said that as well.

Deputy Michael Noonan: What I said was that it was not a temporary measure. I will quote from the income tax reform plan from the Department of Finance. It states:

> Up to Budget 2008, Government policy with regard to income tax was to increase tax credits and bands to the point where 40% of income earners were exempt from income tax, and only 20% of earners were liable to the higher rate of income tax. This progressive narrowing of the income tax base in the years leading up to the crash, followed by falls in income and rising unemployment as a result of the financial crisis, resulted in over 45% of income earners being exempt from income tax in 2010 and just over 13% being liable to the higher rate of income tax.
>
> A range of measures have been taken since 2009 to correct this narrowing of the income tax base, including reductions in tax credits and bands, the restriction or abolition of many reliefs, and the introduction of the broad-based Universal Social Charge. A list of these base broadening measures is attached in Appendix 1.

That is in the document from July 2016, a document with which the Deputy is familiar. That sets the discussion in context. I am willing to stay here all day arguing the point, but I believe it would be more productive if we moved on at this stage. The matter is reasonably well aired on both sides.

Deputy Pearse Doherty: It would be interesting for the committee to hear whether the Minister's view is the same now as it was. Previously, the Minister informed these Houses as follows: "I should point out that it was never intended that the USC would be a temporary measure." Is that still the Minister's view or has he changed his view? The Minister is entitled to change it.

Deputy Michael Noonan: Deputy Doherty is the person who has changed his views since 2011. At that stage, Deputy Doherty put down a motion to abolish the USC because it was an abusive tax and all manner of strange things that he recited subsequently.

Deputy Pearse Doherty: I answered that. The Minister will not answer my simple question.

Deputy Michael Noonan: Deputy Doherty did not answer it. He obfuscated.

Deputy Pearse Doherty: I did. I said I would stand over it. You will not stand over your statement-----

Chairman: Direct your comments through the Chair, please.

Deputy Pearse Doherty: I am asking the Minister whether he will stand over his comments.

Chairman: You have asked him and he has given the answer.

Deputy Pearse Doherty: He has avoided the answer.

Chairman: Maybe he has, but that is what he has given.

Deputy Michael Noonan: Chairman, I have not. Do not reinforce the views of the Deputy. I have not avoided it.

Chairman: I have to be neutral in the Chair.

Deputy Michael Noonan: I have answered it. That is the point I am making.

Deputy Pearse Doherty: The Minister did not answer it. It is a simple question. Does the Minister stand over the comments he made in informing the Houses?

(Interruptions).

Deputy Michael Noonan: Now the left is helping the left. Deputy Doherty has gone to the Trotskyites to support his case. I thought he was in the Stalinist tradition.

Deputy Pearse Doherty: It is a simple question. I want to move on. If the Minister answers the question, then I am happy to move on. Does the Minister stand over his comment to the effect that it was never intended that the USC would be a temporary measure? I think it is important that we know whether the Minister for Finance believes in his previous statement to the effect that it was never intended that the USC would be a temporary measure.

Deputy Michael Noonan: Yes, I was reflecting the intention of the Minister at the time.

Deputy Pearse Doherty: Deputy Noonan was the Minister at the time.

Deputy Michael Noonan: Not when it was introduced.

Deputy Pearse Doherty: Deputy Noonan said it. He was the Minister at the time.

Deputy Michael Noonan: No, I am standing over the fact that when the then Minister, Mr. Lenihan, introduced the USC, he never intended that it was to be a temporary measure. That is fair.

Deputy Pearse Doherty: I appreciate that. That is an answer.

Deputy Paul Murphy: I missed the opportunity to move amendment No. 2. I wish to point out that I am in favour of a study being carried out into the impact of the USC in respect of ensuring a socially just distribution of income. I am in favour of a report on this for the purposes of being able to introduce an amendment on Report Stage. I say as much so that people will know what I am doing.

Chairman: Deputy D'Arcy, do you want to come back in?

Deputy Michael D'Arcy: It is pointless talking to the left.

Deputy Stephen S. Donnelly: The Minister can reply to this if he wishes. His position is well known. I know the Minister's response but I believe it is worth mentioning.

I take the Minister's point that people believed the USC was coming in as an emergency measure or to replace a number of taxes as an emergency measure. However, it is probably fair to say that was mis-sold as an emergency measure. The Minister has stated as much, and we all know, that it was brought in because other taxes collapsed, in particular, stamp duty, which will not be coming back. It was brought in to replace other tax revenues.

The USC may well have been described as an emergency measure, but it was not. The purpose was to replace an unsustainable tax, that is to say, stamp duty. This is relevant because we are talking about an amount of approximately €400 million but in fact this is part of a policy of abolition which will take approximately €4 billion from the tax base.

The Committee on Budgetary Oversight spent a good deal of time on this. We got testimony from a variety of sources, including the ESRI. The points that emerged are relevant to the USC. I will set out the context of the conversation. Public spending pressures are going to increase with demographics. We have a rapidly growing population. We have an ageing population. Therefore, public funding for public services will increase quickly. There was broad agreement, cross-party agreement, that additional money would be required for infrastructure. The point made to the committee, specifically in response to questions on whether abolishing the USC was a sensible thing to do, was that taxes are going to have to go up to maintain public services, based on demographics. Furthermore, taxes would also need to go up to deal with the infrastructure deficit. Therefore, abolishing a multi-billion euro tax was not sensible because, inevitably, it or some other tax would have to be reintroduced. I am keen to put these points to the Minister.

My next point is a political point. Obviously, the Minister has a different view. Anyway, for what it is worth, I am one of several Deputies who, during the last election, campaigned on retention, that is to say, the non-erosion of the tax base. Many Deputies in the corridors told me I was out of my mind to go into a general election campaign with a manifesto of retaining the USC. For what it is worth, I spoke to many people in Wicklow and throughout the country during the election. The majority said they were okay with retaining the USC. They realised we did not have enough teachers in our schools, that we needed more investment in infrastructure and that we needed investment in health care and so forth. They were willing to accept the retention of the USC, but they wanted to see better use of public moneys. Obviously, the Minister is free to disagree with that. My experience during the last election was that the vast majority of people to whom I spoke were okay with retaining it and did not have an issue with the fact that it may have been sold to them as an emergency tax.

I am keen to challenge the idea that the marginal rate of tax is stopping employment. For people working in Ireland, that is not true. For it to be true, we would have to believe that there are people sitting on social welfare who could be earning €50,000 if they chose to do so. I am using that amount because a taxpayer has to be earning over the marginal rate at some decent amount in order for the marginal rate to matter. For the assertion to be true, we would have to believe there is a large cohort of people in Ireland who are choosing not to work. Moreover, for the idea to hold, these people would have to be watching the marginal tax rate and reasoning that if it drops from 50% to 48%, or whatever the rate is, then they would go back to work. I do not think that stacks up. I do not think such people exist.

The second explanation was that there are people abroad who have emigrated from Ireland and who want to come back, but who are not coming back because of the high marginal tax rate. A serious example would include clinicians, nurses and doctors. Ireland is, *per capita*, the highest exporter and the highest importer of doctors in the world and clearly something is going wrong. If one talks to Irish doctors working in the US, Australia or the UK, they do not mention the marginal tax rate, they refer to working conditions. It is the same with nurses and teachers - they talk about working conditions. Similarly, in my experience of living abroad and of working with many people who work all over the world, never once did I hear anybody in a discussion on moving to Ireland, America, Sweden, the Cayman Islands or wherever say that any part of his or her consideration was driven by whatever was the marginal tax rate in the given country.

Deputy Pearse Doherty has asked for data and I have asked for it too. I have heard it asserted on many occasions and I have heard the Minister mention the Laffer curve as the theoretical underpinning of it. However, does the Minister have any data to back it up? In my experience, it simply is not the case that if we move the marginal tax rate from 50% to even 45%, Irish lawyers, doctors, nurses, teachers or whoever would suddenly return to this country. That is the final point I wish to make.

Deputy Michael Noonan: People going to work in a particular jurisdiction take a range of factors into account but we would have a lot of information from IDA Ireland and from individual cases to show that one of the factors when a family decides to return to Ireland is they look at the bottom line on what would be their take-home pay. While the gross figures might be attractive, the bottom line, when one allows for the tax take in Ireland, is an influence and sometimes they cannot afford to come home. This is true for young Irish people in London and in the United States. The decision point, according to IDA Ireland, is usually when the first child is about to reach primary school age. That is when Irish emigrants abroad begin to decide about coming home, and it is a factor. It is also a factor - we hear this quite frequently - in comparisons being made between those who work in Northern Ireland and those who work in the Republic.

To take Deputy Donnelly's argument to its logical conclusion, one would have to agree that tax rates do not matter and that regardless of the level of tax rate, it does not have an affect on decision-making in respect of whether to come back to Ireland or whether to go to work in the first instance. Deputy Donnelly is correct on the generality of cases that if one is unemployed and a job comes up, taking the job is the first consideration and one might not like the tax rate that one would have to pay but one needs the job and one takes it. However, where it hits on the labour market domestically is the second income in the house. If the spouse or partner has an offer of a second job, then the marginal rate of tax becomes an issue because, effectively, the assessment is whether it is worth the spouse or partner's while going back and whether it is worthwhile going back for the resulting net increase in family income when one takes all the other expenses of returning to work into account. That is an issue.

The first question the Deputy asked related to whether I would agree that extra taxes have to be paid because of demographics and the fact that additional services are needed. Extra taxes have to be collected but that does not mean that tax rates have to increase. For example, between the estimated outturn for this year's budget in 2016, which is €48.135 billion, and the estimated tax take for 2017, which is €50.62 billion, there is a difference of €2.5 billion. Apart from an increase of 50 cent in the price of cigarettes, the rest of it is due to the buoyancy from a growing economy, extra people at work and extra spending power. My argument is that as the tax take from the growing economy increases, as it will by €2.5 billion year on year between 2016 and 2017 - as well as acknowledging the fact that extra services are required for demographic reasons but also as a result of the damage that was done to the services during the eight years of recession - taxpayers have to be looked after as well. At a minimum, to take Deputy Michael McGrath's point, taxpayers have to be compensated for inflation so that the purchasing power of their incomes is maintained. That would be the minimum position. Ultimately, it is principally the 2 million people at work who drive the economy and one just cannot keep piling taxes on them.

I do not disagree with the Deputy's general proposition that there was a mood at election time which put great emphasis on improving services - I refer, for example, to better educational and health services, etc. - but the electorate is not homogeneous either. There was a cohort of people who wanted lower marginal tax rates as well. There is not a straight cross-match between the policies the parties put forward and the results they got in elections. If there were, there might have been a different result. My party got the biggest vote in the election and the largest number of seats and we were identified more with the USC reductions than with the improvement in services. However, we took the message that was delivered by the electorate. In the negotiations for Government, we agreed that the available resources - the €2.5 billion or so that is available year on year - would favour expenditure rather than tax reductions in proportions of at least 2:1. That is what is written into the confidence-and-supply agreement with Fianna Fáil and into the programme for Government. If one measures this budget, it is actually approximately three to one rather than two to one. For the management of the economy and the labour force and for the incentivisation of people - and keeping the 2 million individuals at work reasonably happy - it is important that we move on the tax side as well. I am not saying what should be the exact figure. That is all I am saying.

The bottom line is that the worker getting his or her weekly wage on a Thursday or Friday evening and looking at the piece of paper that accompanies it, does not really make a lot of distinction between whether the deduction relates to USC or income tax. It is personal taxation and it is a deduction from the gross to bring about the net amount. I would maintain that while, from a tax collection point of view, USC is very efficient, from a taxpayer's point of view it is a less fair tax than income tax because it is flat-rated in its percentages. In terms of making some modifications to reduce the impact of personal taxation, we decided to approach it through USC. I am open to the argument that it could be done in a different way but with reasonably similar economic results if it was done through income tax. Why have two different personal tax regimes, however, particularly when PRSI is thrown in as a kind of third leg and the marginal tax rate is the sum of the three?

That is my position. It is not that I disagree with the Deputy. It is just I have a difference of emphasis. There was an election. Often it is difficult to interpret results of elections into precise policies, but there certainly was a general tendency to the effect that many people wanted public services repaired and funded more adequately than was the case at the time. We have taken that on board.

Deputy Stephen S. Donnelly: I have one brief follow-up question on the argument of work activation, which is the main argument I have heard from Fine Gael for abolition of the USC. I agree with the Minister on the simplification of the taxes. Having line after line on one's payslip is unhelpful. The example the Minister provided relates to the second parent going back to work and whether this is worth doing. The main argument I have heard relates to child care costs, as that is what stops people going back to work. I agree that for people coming back to Ireland, it is when kids get to approximately four years old that they think about returning. As somebody with three young kids, the main argument I hear is about child care. It is not about marginal tax. Therefore, I propose an impact assessment of work activation, that is, spending the money either in reduced taxation via the USC or putting the equivalent amount of money into reducing the cost of child care. I would very much like to see the analysis but my hunch is we would see significant benefit in investing the money in affordable, high-quality child care over a straightforward tax reduction. Is that something the Minister would consider tasking the Department to have a look at?

Deputy Michael Noonan: We do many surveys and reviews but that would put too narrow a focus on why one reduces personal taxes. We do not reduce personal taxes purely so more women will go back to work. We can see it would be a consequence of the reduction and that not to do it would be an obstacle to entry into the labour force. However, there is a generality of the workforce and it simply needs a reduction in personal taxes. It is a very strong motivation for doing it.

Deputy Stephen S. Donnelly: I take the point but would the Minister consider the assessment? We have different political views on it, which is fine, but I specifically refer to the work activation piece, which is the main argument I hear put forward. It is testable and we could do an impact assessment. Is it something the Minister would consider?

Deputy Michael Noonan: I will consider it but there are many reports and assessments being requested in the course of this Finance Bill. I do not want to burden the Department of Finance unduly either. We will consider it between now and Report Stage and I will revert to the Deputy about it.

Deputy Stephen S. Donnelly: I thank the Minister.

Deputy Joan Burton: On the issue of the State's recognition of the cost of rearing children, our tax system is probably a little unusual in that we do not recognise that cost through our tax system. As we all know, we recognise the cost of other adults who are partners or spouses and we recognise the dependency cost, perhaps, of somebody with a specific medical condition or disability. When it comes to recognising the cost of rearing children, the main element is child benefit. From an activation perspective, the key issue with child benefit is that it does not penalise a person if he or she takes up work. The vast bulk of child benefit is paid to women, although there is now a relatively small proportion of men who are the carers for children and receive the benefit.

In any kind of examination, I strongly suggest that the UK system of tax credits is unbelievably complicated and pretty much almost broke the UK Revenue and Customs in its efforts to bring in what was due. We should do this in the context of activation, particularly with respect to secondary incomes. The shift to a tax credit model must be examined thoroughly. Where it has been done, there must be a real-time system, especially if there are varying hours or if a person has two jobs, neither of which is a full-time job. A person might work in two schools, for example. I have no problem with an evaluation of the proposal but I would like the significance of child benefit to be recognised, as well as the fact that it covers children up to 18, provided that from 16 to 18, they remain in school or a form of education. That allows much flexibility and choice to different families.

I know Deputies might argue it is not enough. It stands at €140 per month and it is a pity it was not increased in this budget. I assume the €31 million given to the child care initiative in the Department of Children and Youth Affairs for the last quarter of the year is in lieu of some kind of child benefit, but that only goes to children who are quite young. We are not clear about a portion of it that goes to older children. Any studies on tax are welcome if they give more information. It is important there would not be the implication that if we did it a certain way, we could do away with child benefit.

In one of the Minister's earlier comments he referred to rates. With the people I meet, the critical issue in the Irish tax system, which is significant for both single and married couples, is that when a person goes to about €35,000 or €36,000 while single, he or she is into the top rate. There is a little extra if a couple is involved. To be honest, that is an area where we are at a disadvantage, for example, compared with the UK. In that country, the relative levels at which one moves to the top rates are much higher. Consequently, we need to examine the USC. I have always favoured that it be incorporated into pay related social insurance, PRSI. In the long term, as a country, we must provide pensions in retirement for people so contributions must be enough to cover that.

Deputy Michael Noonan: Child care is a matter for the Minister for Children and Youth Affairs, Deputy Zappone, and child benefit is a matter for the Minister for Social Protection. It is not really within my remit and any assessment of the effectiveness of policy for the care of children should be centred in the Department of Children and Youth Affairs. Much of the conversation here is very interesting but it is not in my remit to solve the problems being brought forward.

Question put.

The Committee divided: Tá;, 6; Níl, 2.	
Tá;	Níl;
Burke, Peter.	Doherty, Pearse.
Burton, Joan.	Murphy, Paul.

D'Arcy, Michael.	
McGrath, Michael.	
McGuinness, John.	
Noonan, Michael.	

Question declared carried.

NEW SECTIONS

Chairman: We will move on to amendment No. 3 in the name of Deputy Pearse Doherty, which would involve the insertion of a new section. Will the Deputy move the amendment?

Deputy Pearse Doherty: I move amendment No. 3:

> In page 6, between lines 16 and 17, to insert the following:
>
> "**3**. The Minister shall, within one month of the passing of this Act, prepare and lay before Dáil Éireann a report on options available for removing the USC liability for all workers earning less than €19,752 a year.".

We touched on this earlier. It is about Sinn Féin's proposal to remove those earning below €19,752, which we believe should be the new level of minimum wage, from the USC tax net. This measure would cost in the region of €78 million as opposed to the €335 million the Government's proposal in section 2 would cost. We believe it would remove, as I mentioned earlier, the unfairness in the USC, while acknowledging there has been significant movement during the years since it was first introduced at a level of €4,004. It is now at a level of €13,000. We believe further progress should be made and that the level should be increased to €19,752. I also point out to the Minister, in case he missed it when he read our alternative budget this year, that - as is the case every year - a wealth tax proposal was included. We discussed the need for a report earlier when we met in the Dáil Chamber.

Deputy Michael Noonan: It would appear from the wording of the proposed amendment that it is the Deputy's intention that all those earning up to €380 per week - somewhat above the earnings of a full-time worker on the new minimum wage of approximately €361 per week - would be exempt from the charge of USC entirely. It is unclear whether the Deputy also intends that this amendment would consider all income earners with incomes of less than €19,752 rather than just workers. Such a group would also include pensioners and people with income from their investments. The current exemption threshold for USC is €13,000 per annum and it is now estimated that over 745,000 individuals - 30% of all income earners - will not be liable for USC from next year. To further increase this to €19,752 would exempt 42% of income earners, which is more than the 37% estimated to be exempt from income tax in 2017, and would, therefore, considerably narrow the income tax base. During the economic crisis, it reached a point where 45% of all income earners were exempt from income tax. That was unsustainable and it placed an unfair burden on earners who were contributing to the income tax base and exposed the vulnerability of the income tax system to economic shocks.

It is my view that a broad-based progressive income tax system where the majority of income earners make some contribution according to their means is the most fair and sustainable model in the long term. In 2017, following the passage of this Bill and the USC reductions it contains, a single PAYE employee on €19,752 will pay about 9% of their gross income in income tax, USC and PRSI. I consider this to be an appropriate contribution toward social and public services bearing in mind that a similar employee earning €35,000 will pay about 18% of gross income and an employee earning €70,000 will pay approximately 34% of gross income. The Deputy will be aware that in this budget I retain the current USC threshold of €13,000 to maintain the existing USC base. However, I have reduced the three lowest rates of USC by 0.5% each, thereby ensuring that all individuals currently paying USC will see a reduction in their liability next year. Options regarding the future of USC need to be considered in the context of the reform of the wider income tax system. In A Programme for a Partnership Government, there is a commitment to ask the Oireachtas to continue to phase out USC as part of a wider, medium-term income tax reform plan that will keep the tax base broad, reduces excessive tax rates for middle income earners and limits the benefits for high earners.

With regard to the Deputy's request for a report, he will be aware that when the Government considers options for a budgetary tax package, it must take account of the cumulative effect of all parts of the package and, therefore, single measures should not be contemplated in isolation. Furthermore, the Deputy will be aware that in July my Department published an income tax reform plan that provides detailed information on the distribution of the USC charge, as well as potential pathways towards its phasing out along with the analysis of many other aspects of the income tax system. Taking these factors into account, I am not minded to expend resources on the production of the report requested by the Deputy. In such circumstances, I cannot accept the amendment.

Deputy Pearse Doherty: While I am not surprised that the Government will not accept the amendment, I am shocked at the Minister's response. He has just told the committee that no longer obliging those who earn just above the minimum wage to pay the USC, which would cost the State €78 million, would leave us vulnerable to external shocks and narrow the tax base. This is madness. The Minister is going to get rid of it entirely, not just for these individuals but for everybody. He has spent the past hour rubbishing my suggestion that the policy the Government has agreed of eroding €462 million of USC tax receipts each year will not leave us vulnerable to external shocks. However, the Minister is committed to doing not only what I want, namely, removing the lowest earners out of the USC tax net, but also all the removing other earners as well. Can the Minister explain how my proposal, which involves tens of millions of euro, leaves us vulnerable, while his, which involves billions of euro, would not leave us vulnerable and would broaden the tax base?

Deputy Michael Noonan: In the previous amendment, the whole basis of the Deputy's argument was that I was narrowing the tax base. Now, the Deputy wants to narrow the tax base. The same arguments which he made against what I was saying would apply to him.

Deputy Pearse Doherty: The Minister is making the argument I made. The point I made earlier is that his proposal this year cost €462 million. The proposal I suggested, which should be the sum total of what we do with USC, is to bring those earning up to the minimum wage out of the net, which would cost €78 million. While I have acknowledged that this would narrow the tax base, in the context of USC bringing in €5.6 billion by 2021, it is affordable. How can the Minister, legitimately and with a straight face, say that a proposal to take these people out of the USC tax net at a cost of €78 million would leave us vulnerable to external shocks and narrow the tax base? How can he also state that he believes in the principle that people should pay a certain amount of income, particularly in light of the debate we have had and his commitment to continue what he is doing this area in the next number of finance Bills.

Deputy Michael Noonan: I am arguing, as the Deputy agreed earlier, that a narrowing of the tax base over a period - where significant amounts of money would be involved - would leave us open to the kind of shocks we were open to when the previous Government but one narrowed the tax base during the Celtic tiger era. Although that Government thought it had the resources to do so, transactional taxes, particularly those from the building industry, such as VAT, income tax from 250,000 workers and stamp duty, disappeared from the Exchequer when the shock came. This tax income had to be replaced, which was one of the reasons the USC was introduced. I am saying that, as a general principle, this is what happens when we narrow the tax base. I am replying to the Deputy's amendment to have a report and giving him the view on what would be the nature of the report that a narrowing of the tax base can have adverse results. When we come to particular instances, such as what I proposed in the section we have just disposed of, it is affordable in a particular year but must be seen in the context of a progressive movement towards tax reform over five or six years.

Deputy Pearse Doherty: I agree with the script the Minister's officials wrote for him and it is in line with the briefing note they gave him when he was re-elected and took office. However, it is completely out of step with the political position of his party to get rid of the USC. What the Minister said is accurate. The abolition of the USC to the scale the Minister is talking about would leave us vulnerable to external shocks. That is the point I made this morning in the Dáil Chamber. It would narrow the tax base and, as the Minister just said, leave us vulnerable to other tax receipts falling off, as history has shown us. How could a proposal which limits the abolition of the USC to €78 million, in the context of the billions of euro it brings in, leave us more vulnerable or exposed or reduce the tax base any more than what the Government proposes?

I expected that the Government would not accept our amendment. I am glad the Minister has put his position on the record, particularly as he has flip-flopped from what he said this morning. I can only suspect it is what his Department officials have advised him to do. These are not departmental decisions but political decisions, and this is the problem. It has been politically led without any real basis except that somebody thought it was a good idea in the run up to the election. It is not a good idea; it is a bad idea. The election is over and we need to figure out what is the most sustainable thing to do for the economy. The proposal is about ensuring the lowest income earners are taken out of the USC tax net, which would increase their spending power. They need that pressure to be relieved. It is a small amount of money in the overall context. The Minister has talked about this year's measure being affordable. Based on the fiscal space and the Minister's split of spending and tax - not that I agree with it - €78 million of tax reductions is affordable next year and this report could potentially tee it up.

Deputy Paul Murphy: I support Deputy Pearse Doherty's amendment as a limited step with which we would agree in terms of taking low-paid workers out of the USC net. The Minister's response is disingenuous in two ways. First, he referred to a progressive taxation system and the elements of income tax, despite the reality that these low-paid workers pay a substantial proportion of their income through indirect taxation, which makes up a substantial portion of the country's tax take. These workers are probably paying close to 30% of their incomes in tax, similar to what the top 10% of income earners pay. Theirs happens to be largely through regressive indirect taxation measures. Second, despite all his talk of broadening it, the Minister will not substantially broaden the tax base just by making low-paid workers pay the USC and he will not substantially narrow the tax base by removing such workers from the USC net. The measures that would contribute to a broadening of the tax base are those which the Government is most dead set against, namely, going after wealth and corporation profits. The Government is committed to maintaining our corporation tax at a level lower than even that to which Donald

Trump has promised to bring US corporation tax.

We do not accept the argument that the USC is a progressive tax which the left should support. We favour the abolition of the USC. It is rightly seen by workers as a punitive tax that was supposedly an emergency measure. We support the replacement of the USC with an equivalent tax that applies to incomes above €90,000, which would be called a high-income social charge. It would hit those on significant incomes as opposed to low-paid workers or medium-paid workers as is currently the case.

Deputy Michael McGrath: Could the Minister clarify the figures on the cost of the USC changes on which we just voted? Different figures have been put forward. The budget day booklet stated that the 2017 cost would be €335 million, whereas the answer I received to a parliamentary question stated the full-year cost would be €390 million. Could the Minister clarify whether those are the figures or whether there are different figures? The Minister read into the record that if the amendment were adopted and implemented as a policy decision, a certain percentage of income earners would be outside the USC net. What percentage did he say? For now, the priority should be gradual and affordable reductions that place an emphasis on low and middle-income earners rather than significantly increasing the exemption limit. That would be our perspective at this time.

Deputy Michael Noonan: Some 42% would be outside completely on the basis of this. What was the figure?

Deputy Michael McGrath: It was the cost of the USC measures in the budget.

Deputy Michael Noonan: They are €335 million in the first year and €390 million in a full year. I agree with the Deputy's approach. The Government's approach is that as the economy grows, there is extra tax buoyancy. Between 2016 and 2017, this amounts to about €2.5 billion. This will be used to improve public services and reduce personal taxes. By and large, that is what the Government's intention is. More will be allocated to improve public services. The commitment in the programme for Government is that at least two to one will be for the improvement of services. There will then be a residual amount which will be about one third of what is available in any given year and this will be available for reform of taxation. That principally will be used for, among other things, reduction of personal taxes. The approach we are taking is that in reducing personal taxes, while not excluding the possibility of varying the income tax code, we will progressively reduce the incidence of USC. This year, we had very little money so we are doing what we agreed in the last section, which we disposed of. Next year, we will move on. As a general principle, I would like to keep the tax base broad. At present, €13,000 is a good entry point into USC because it is important that everybody who earns contributes something.

Amendment put and declared lost.

Chairman: Amendment No. 4 in the names of Deputies Murphy and Boyd Barrett has been ruled out of order as it is not relevant to the provisions of the Bill.

Amendment No. 4 not moved.

Deputy Pearse Doherty: I move amendment No. 5:

In page 6, between lines 18 and 19, to insert the following:

> **“3.** The Minister shall, within 3 months of the passing of this Act, prepare and lay before Dáil Éireann an analysis of the tax changes in this Act, and the total of tax changes and spending adjustments of Budget 2015, setting out the continuing impact on people based on their gender, income, age, marital and disability status.”.

This amendment calls on the Minister to prepare and lay before Dáil Éireann an analysis of the tax changes in this Act and the total of tax changes and spending adjustments of budget 2015 setting out the continuing impact on people based on their gender, income, age, marital status and disability status within three months of the passing of the Act. This is one of the proposals I have been bringing before this committee year after year. We must acknowledge that there has been some progress in respect of this matter. There has been an improvement in the data and types of tables presented in the budget itself and the Committee on Budgetary Oversight has done some good work in this regard. I am sure that, along with others, the committee’s report focuses on this issue.

I am sure the Minister is aware that the committee has agreed the broad principles relating to equality budgeting, which states that budgetary changes should be progressive and proofed for equality, anti-poverty and regional impact. The amendment challenges the Minister to carry out that report within three months, setting out the equality impact for this year. I am mindful that part of this does not fall under his remit but the aim is to get a Government response. This is an opportunity for that to happen. Hopefully, next year, when the Committee on Budgetary Oversight has bedded down more, there will be a more formal way for this to be done for next year’s budget. In the meantime, there is a gap and the Department, working in conjunction with the Department of Public Expenditure and Reform, which will be led by the Department of Finance, should agree to carry out this report. It is in keeping with the spirit of what the Committee on Budgetary Oversight has agreed to do. It was not possible to do it this year because of the timeframe involved. It would be a welcome first step and something that could input into our discussions in the other committee, to which members of this committee belong. For the Department to do this would be a good and genuine step.

Deputy Michael Noonan: A substantial amount of analysis covering some of the groups listed by the Deputy has already been published or is due to be published shortly. This week, the Department of Social Protection will publish the social impact assessment of the welfare and income tax measures in budget 2017, presenting the overall distributional impact of the budget by income group and family type. It will also examine the impact of the budget on the at-risk-of-poverty rate and work incentives as well as the impact of the change in the minimum wage. The social impact assessment is being completed in consultation with my Department in respect of the income tax elements of the budget and is consistent with my Department’s analysis of the impact of the budget package.

Deputies will also be aware that the programme for a partnership Government sets out a commitment to develop a process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights. The programme undertakes that the institutional arrangements for the independent fiscal and budget office will support equality and gender proofing and draw on the expertise of the Irish Human Rights and Equality Commission.

In this light, I draw members’ attention to a number of new innovations and improved features of this year’s budget documentation. First, section 5.2 of the budget book, which deals with social impact and equality analysis, sets out the stages in the budget process at which equality and distributional issues are explicitly addressed and outlines recent developments in these areas. This section also describes in detail the process adopted by the tax strategy group, including the pre-budget publication of the tax strategy group papers for the first time this year. It also details some of the annexes featured in the budget book which focus on equality and distributional issues. These include annexe A, which presents information illustrating the effects of the budget measures on different examples of income earners and household types across a range of income levels. Also presented here are tables showing the development over time of the average effective tax rate for different household types across a range of incomes from a variety of sources. Furthermore, annexe B, which deals with progressivity and income tax issues, analyses the role the income tax system plays in the distribution of income, which is an important factor in assessing the fairness of the budgetary process.

Finally, the new social impact assessment framework developed by the Department of Public Expenditure and Reform in order to facilitate a more comprehensive assessment of budgetary policies on household living standards is described in the 2017 expenditure report and accompanying papers. This new framework will complement the established Department of Social Protection social impact assessment, which focuses on the effect of income tax and welfare measures using the ESRI's SWITCH model. The new framework expands the assessment to consider the effects of expenditure on public services. The first of the new social impact assessment papers examining the general medical services scheme and the targeted child care scheme also accompanies the expenditure report published on budget day. All the materials from budget 2017 can be accessed on the budget website at *http://www.budget.gov.ie*.

Therefore, on the basis that the analysis proposed in the amendment is already available or soon to be published, I do not propose to accept the amendment.

Deputy Pearse Doherty: We have not seen the stuff that is to be published but I am not sure that the comprehensive data I have looked for in terms of disability, status, income and so on will be available. However, I could be proved wrong. The principle of doing this is one that the Department should lead out on. If it is the case that the data is there, it could be collated and the gaps provided on. On that basis, I will press the amendment.

Amendment put and declared lost.

SECTION 3

Chairman: Amendment No. 6 is in the name of Deputy Pearse Doherty. Amendments Nos. 6, 7 and 8 are related. Amendments Nos. 7 and 8 are physical alternatives to amendment No. 6. Therefore, amendments Nos. 6 to 8, inclusive, will be discussed together. If amendment No. 6 is agreed to, amendments Nos. 7 and 8 cannot be moved.

Deputy Pearse Doherty: I move amendment No. 6:

In page 6, to delete lines 21 and 22 and substitute the following:

"(a) in paragraph (a), by substituting "€1,100" for "€550", and

(b) in paragraph (b), by substituting "€1,100" for "€550".".

The proposal by the Government to equalise the self-employed tax credit with the PAYE tax credit is one that is to be welcomed. We called for it last year and the Government began that process then. We see the second stage of it this year. However, it falls short of what was expected and what could reasonably be delivered upon. It should have been equalised on a three-year basis, with the second year coming up to €1,100. The question is really about the pace through which we deliver the equalisation process. I want to also mention that the tax credit should not apply to higher income earners.

We have had an amendment ruled out of order but I will put forward a different version of it on Report Stage. The amendment should state that we would begin to taper out the tax credit at income of €100,000 at a rate of 5% per €1,000 earned above that level with no credit being available to those who earn incomes in excess of €120,000. The tax credit would begin to taper out, losing 5% for each €1,000, which means there would be no tax credit at all when one's income is €120,000. This is a system I am sure the Minister is familiar with; the eradication, phasing out or tapering of tax credits at the higher level was introduced in Britain a number of years ago. It was introduced by the Labour Party when it was last in office. It is a way of clawing back revenue.

We have these debates in Ireland that frustrate me. We all know how we can use data. We talk about high marginal rates of tax. If we were to taper out personal tax credits for incomes above €100,000, our proposal is that we should increase personal tax rates at a rate of 7% on income above €100,000. The exact same objective could be achieved by eradicating personal income tax credits by tapering them out above that level, which would mean that marginal tax rates would not have increased, yet individuals would have paid more tax, the same way it happens in Britain. That is why when we compare marginal tax rates, it is important that we look at what is in the system - the types of pension tax relief, the fact that personal tax credits are tapered out and so on. That is another debate for another time. The issue here is that the tax credit should be introduced at €1,100. It was wrong for the Government to take a €950 approach. The Government should consider the tapering out of this tax credit starting at €100,000 and tapering it out at 5% for each €1,000 earned above that amount.

Deputy Michael McGrath: Fianna Fáil welcomes that there is further progress on the equalisation of the income tax system in terms of the self-employed. We would like to have seen the full part two - the additional €550 - provided this year and for it to be fully equalised next year. I assume it came down to an affordability issue in the end but this improvement has to be seen alongside the partial extension of social welfare benefits to the self-employed. It was an important breakthrough. Not all social welfare schemes have been extended to those paying class S PRSI, but it was very important progress for people who are self-employed. We welcome the increase. We certainly would have liked it to be more but obviously it was not possible this year.

While we are on this amendment, can we clarify the issue of amendments being ruled in and out of order? In this case, the amendment proposes to increase a tax credit, which is a charge on the Exchequer. It is favourable for the taxpayer so it is allowed. Can that be explained to me?

Chairman: The amendments that have been ruled out of order have been dealt with by the clerk according to Standing Orders. With regard to Deputy Donnelly's earlier question, we do not have discretion on it. It is ruled out of order and that is it.

Deputy Michael McGrath: That is what I am asking. Does anyone fully understand the rule? Amendments Nos. 6, 7, and 8 increase the cost to the Exchequer so I assumed-----

Chairman: The Deputy will have to contact the Bills Office and the clerk.

Deputy Michael McGrath: -----they would have been ruled out of order but they have not been.

Deputy Pearse Doherty: I will come in on that point. I have asked that as we go through this there would be some clarification. I sat with the clerk who has given time to try to explain this and I have suggested a guide for Deputies. I imagine there are very few people in the House who understand the rulings. The clerk has to go on existing rulings and precedent and all the rest but, for the life of me, I do not understand how there have been certain rulings made today. The problem here is we got notification of what was ruled out of order either this morning or late last night. We have no opportunity to contact the clerk. There is no time available for us to do this because we are going through the Finance Bill all the way through. I am not happy that there will be a position where we cannot vote on amendments that I believe should be in order. Deputy McGrath raises a genuine question. The two rules that rule an amendment out of order are that it places a cost on the people or a cost on the Exchequer. My amendment, like Deputy Donnelly's amendment, increases the cost on the Exchequer - we know that for a fact - yet it is allowed to be tabled and we are allowed to debate it. If a vote is called on it, it will be voted upon. There are other amendments that do exactly the same but they are ruled out of order. I do not think anybody in this committee knows these rules.

Chairman: The letter goes out under my name but the decision is actually made by the clerk. It has to do with Standing Orders. The suggestion has been made, because I raised the issue, that the Deputy would take it up at clerk level because we will not be able to resolve it here. It has been recommended that members do that and, if necessary, table the amendment on Report Stage, if that is possible.

Deputy Pearse Doherty: The reason I raised it this morning is because we need to do it at committee level. The schedule is to go through this until 9 o'clock tonight. I think it would be unfair to ask the clerk to sit back and for us to go into his office one by one to discuss this. We are back early tomorrow morning. We should set out half an hour and ask the clerk to come in to explain some of the rulings so that we have a better understanding of them. I have also questioned whether we can get legal advice. I do not want to call into question the ruling or interpretation of the clerk. I have signalled amendment No. 105, which deals with the capital gains tax for the funds industry, and I want to be able to press the amendment if it comes to that point. As parliamentarians, we have to have a clear, legal view on whether that amendment is disallowed or not. That is why we need to have that discussion.

Chairman: Have the members who have had their amendments ruled out of order been in touch with the clerk?

Deputy Pearse Doherty: Yes.

Chairman: Has the clerk responded?

Deputy Pearse Doherty: Not yet. Not since we came down here.

Deputy Stephen S. Donnelly: On the point about the process, I was handed the rationale for my amendments being ruled out of order when I walked into the Chamber this morning. My amendments that are in the same grouping we are discussing now should be out of order but they are not. Amendments that propose to stop something that currently does not exist have absolutely no basis under Standing Orders for being ruled out of order in my opinion and yet they are out of order. I support the Deputy's call to set aside a few minutes for the clerk to come in and explain it to us because these are material issues. I have tabled similar amendments to the one Deputy Doherty raises on the five-year capital gains tax. They are material issues. Is that something we could do?

Chairman: I will ask the clerk to contact the other clerk to determine if that can happen and to explain the disquiet of members as a result of the matters being ruled out of order. We can set aside half an hour and if someone is available to come and explain, that will be fine, but for the moment we have to proceed as we are.

Deputy Stephen S. Donnelly: I thank the Chairman. Can I speak to the other amendment? I can skip over my two amendments because they are essentially the same.

Chairman: Yes. Amendments Nos. 6 to 8, inclusive, are related.

Deputy Stephen S. Donnelly: I also welcome the move towards full equalisation of the tax credit. The amendment has been tabled in the spirit of speeding it up. Last year the Minister went halfway-----

Deputy Michael Noonan: One third.

Deputy Stephen S. Donnelly: Okay, but my hope was that it would have been completed this year. When we get to the issue of vulture fund tax avoidance, I will demonstrate to the Minister where plenty of additional discretionary taxes could be applied. The figure in last year's budget document was €33 million. These figures are first order effects; therefore, when the impact is factored in, the rule of thumb is to reduce the cost to the Exchequer by approximately one third. If the Minister went one third of the way last year and the net tax hit for the Exchequer was €22 million, it is reasonable to assume that the cost of going the full way would be €44 million. He has gone a further third of the way, but for the sake of the additional €20 million or so, it would send a strong signal to the self-employed who have endured a great deal of insecurity and difficulty during the recession. If we could find the additional €20 million, it would make a strong statement to the self-employed all over the country that they would be treated equally from a tax credit perspective to PAYE workers.

Deputy Michael Noonan: I am providing for an increase of €400 in the earned income credit bringing it up to a value of €950. The €400 increase gives a benefit of more than €7 a week to those eligible for the credit, in addition to the benefits they receive from other elements of the budget package such as the USC reductions. In view of the limited resources available in budget 2017 and all of the competing demands for amendments to the tax system, it was not possible to increase the earned income credit by €1,100 to €1,650 as proposed by Deputy Stephen S. Donnelly, or by €550 to €1,100 as proposed by Deputy Pearse Doherty. Such increases would have given a more disproportionate benefit to the self-employed as a result of the budget when compared to all other individuals, including PAYE workers, pensioners and welfare recipients An increase of €1,100 would have resulted in a single self-employed individual earning €25,000 gaining more than €23 per week as a result of the budget package, while a PAYE employee on the same income would only gain €2 per week. Similarly, a €550 increase would have provided an additional benefit of more than €10 per week for the self-employed. The increase of €400 contained in the section allows for an additional benefit of almost €7.70 per week, over and above the benefits received by employees in the budget. This was an appropriate balance in view of the resources available in the budget.

I accept that significant differences remain in the taxation of employees and the self-employed. However, it must be acknowledged that some of the differences are to the benefit of the self-employed. For instance, there are significant timing benefits, depending on the accounting period used by the taxpayer, which are available to those who are self-assessed but not to PAYE workers. The self-employed also continue to benefit from a broader expense deduction regime than that available to employees. Deputies will be aware that there is a commitment in A Programme for a Partnership Government to increase the earned income credit to €1,650. The budget 2017 increase of €400 in the existing €550 credit introduced last year is a significant step in this direction. For the reasons outlined, I do not propose to accept the amendments.

Chairman: How stands the amendment?

Deputy Pearse Doherty: I will withdraw it, but we may come back to it on Report Stage.

Amendment, by leave, withdrawn.

Amendments Nos. 7 to 9, inclusive, not moved.

Question proposed: "That section 3 stand part of the Bill."

Deputy Pearse Doherty: I have signalled that I will come back to this issue on Report Stage. I acknowledge that the amendment I tabled in this regard has been ruled out of order, but on Report Stage the Minister might address the tapering out of tax credits for higher income earners.

Deputy Michael Noonan: The programme for Government contains a commitment to continue the phasing out of USC in the medium term and, as part of this process, to consider the removal of the PAYE tax credit for high earners to limit the benefit to them of the phasing out. This is included to ensure fairness and remove a scenario where there would be a disproportionate benefit for higher earners. Therefore, one would compensate the other, among other measures.

Question put and agreed to.

Section 4 agreed to.

SECTION 5

Deputy Michael McGrath: I move amendment No. 10:

In page 7, to delete lines 37 and 38.

This relates to the new tax credit for fishers which I welcome and which follows the marine taxation review conducted by Indecon consultants and submitted to the Department in October 2015. There is a sunset clause, running to 2022. What is the basis and reasoning for this? Is it possible to remove it?

Deputy Michael Noonan: Section 5 introduces a new tax credit for fishermen which is aimed at assisting the viability of the fishing sector and attracting and retaining workers in the industry. The tax credit is worth €1,270 and available to active fishers which I understand is a new gender-neutral word to describe fishermen and fisherwomen who spend at least 80 days a year at sea engaged in fishing for wild fish or wild shellfish. The amendment seeks to delete the sunset clause for this tax credit which stipulates that it will cease to be available after 2021. It is good tax practice to insert sunset clauses into tax legislation, particularly in the case of tax reliefs. Such clauses, while not required to instigate a review of a particular tax relief, prompt such reviews as and when a sunset clause is due to be triggered. The Department of Finance guidelines on tax expenditure evaluation set out a five-year time limit for reviews of tax reliefs that cost between €1 million and €10 million per annum. It is in this regard that the sunset clause to the end of 2021 was set. Reviews of tax reliefs allow us to consider whether they are meeting the objectives set for them, whether they are still relevant and required and whether changes might be warranted. That is the argument for including the clause, but, of course, the Department can always conduct a review after five years without a sunset clause. If the Deputy is particularly concerned about the issue, I can agree to the amendment.

Deputy Michael D'Arcy took the Chair.

Deputy Michael McGrath: On the basis of the Minister's reply, on the reason for inserting the year 2022, is it consistent with the policy of conducting a review of new tax expenditures after a five-year period? The measure, as currently drafted, is a blunt ending of the credit come 2022. I do not think that is the intention or what the Minister is seeking to do. Therefore, if the Minister was willing to remove it on the understanding that there would be a five-year review of the effectiveness of the credit, I would be happy.

Deputy Michael Noonan: I agree. The amendment is drafted sufficiently closely to achieve that end. We can agree it as drafted.

Deputy Pearse Doherty: I gather we are discussing this amendment and the next one together. I will begin by discussing the fisher tax credit. We should perhaps give it its Irish name, which has always been gender-neutral, an iascaire. There are issues in terms of state aid in respect of the seafarer allowance being proposed under the Indecon report. It was made clear that there were state aid issues. No such state aid issues apply to the tax credit. Is that correct? I am referring to the tax credit as opposed to the allowance suggested under the Indecon report.

Deputy Michael Noonan: The credit is a *de minimis* credit. This refers to the state aid guidelines, which hold that if a tax relief is below a certain limit, it does not require approval in advance. The *de minimis* limit for the fisheries sector per undertaking is €30,000 over any period of three fiscal years. This compares to the *de minimis* limit of €15,000 over three years for agriculture. This relief will be monitored by the Department of Agriculture, Food and the Marine to ensure it does not breach the relevant thresholds. It will be done through a grant management system that Bord Iascaigh Mhara is developing. Then, on the basis of the commitment given to Deputy McGrath now, the Department of Finance will carry out a review after five years. Given that it is treated as a *de minimis* measure, it does not fall within the scope of exclusion because of state aid guidelines.

Amendment agreed to.

Deputy Michael McGrath: I move amendment No. 11:

> In page 7, after line 40, to insert the following:
>
> "(3) The Minister shall, within 3 months of the passing of this Act, prepare and lay before the Oireachtas a report on the Department of Finance's response to the recommendations set out in the Marine Taxation Review dated 8 October 2015.".

This relates to the marine taxation review completed by Indecon and submitted to the Department in October 2015. It followed from a budget day announcement from the previous year. I welcome the assessment of the potential of the so-called blue economy and the different elements of the marine sector, which has far more potential.

Overall, the report found that employment in the marine sector numbers approximately 18,500 people and turnover is approximately €4.5 billion. The report acknowledges that other countries have a more supportive tax environment generally for the marine sector. The issue I am seeking to highlight is around the seafarer tax allowance. I note that in 2013 the cost of the tax forgone in respect of that allowance was only €400,000. A total of 315 seafarers availed of it. The combined cost of that tax allowance and the PRSI refund scheme - I realise that does not come under the Department of Finance - was a little over €800,000. The quantified benefits, according to this report, were €1.4 million. Indecon arrived at the conclusion that there was a net benefit of €360,000.

The purpose of the amendment is to elicit the response of the Department to the report. It is a substantial report. There are recommendations in terms of changes to the taxation regime across different elements of the marine sector. To my knowledge, there has been no Department of Finance response to the report. I am keen for the Department to offer a response because this is an important part of our economy and could become even more important in the years ahead.

The issues raised with me relate in particular to the seafarer tax allowance and the comparison between the regime in Ireland and other countries. I am not seeking any commitment on that from the Minister at the moment, but I am keen to hear an assessment from the Department on the report and for the Department to set out its intention in terms of whether we are accepting the recommendations or otherwise.

Deputy Pearse Doherty: I support the amendment. The report comes up with good recommendations, although I am not supportive of all of them. The reported has rightly flagged that there are issues in respect of state aid rules applying in this case. For example, the report has made a recommendation in respect of the tax tonnage regime to allow us to compete with Malta. Currently, the Malta regime is under investigation for state aid. Therefore, we need to ensure that anything we bring forward is robust enough. Some of the proposals, for example, those relating to more capital investment in our ports, would be most welcome, as would tax relief for fishermen. There is a need for a comprehensive response.

I am also keen to hear the overall estimate of the cost of the recommendations as per section 8.8 of the report. There is a reference to a cost of between €10 million and €15 million. The Department of Finance has estimated that the seafarer allowance alone would cost €11 million. That is in excess of the total cost of the 30 measures proposed, albeit at the lower end, as per the Indecon report. I am keen to hear the view of the Department of Finance. It seems one of the measures will cost €11 million. However, Indecon has suggested that the entire cost of the proposals could be as little as €10 million. There are obviously some issues with the report itself.

Deputy Michael Noonan: As Deputies may be aware, the marine taxation review was completed by Indecon late last year. This has already been referenced by a number of Deputes. The report was submitted to the Departments of Finance; Agriculture, Food and the Marine; Transport, Tourism and Sport; and Jobs, Enterprise and Innovation. The review followed from the agri-tax review that was completed the previous year and proved to be a successful assessment of the agri-tax situation. It led to considerable reform.

Deputy McGrath's amendment seeks to insert a requirement for a report on the Department of Finance response to the recommendations set out in the marine taxation review. As I have stated before, following the publication of the review, the officials of the Department of Finance were asked to consider the recommendations in conjunction with the other relevant Departments. Some of the recommendations made were found to be erroneous. Certain existing tax incentives are already available to the marine sector while others have significant state aid implications that need to be considered carefully, as Deputy Doherty has suggested.

I have brought forward provisions in the Bill to provide for three of the recommendations, namely the tax credit for fishers, the appropriate tax treatment for the fishing vessel decommissioning scheme and the extension of accelerated capital allowances in respect of energy-efficient equipment for sole traders. It is generally not the case that all recommendations arising from a review would be implemented, and I do not propose to bring forward any additional measures at the moment. However, that does not mean other recommendations in the review do not have merit. As state aid rules evolve, we may be able to make more progress in respect of some of the other recommendations.

For these reasons, I am not in favour of setting out in a report the Government response to the individual recommendations. I am not in favour of accepting this amendment. On the other hand, the Department has evaluated almost all of the recommendations. It would not be difficult for us to put the Department's assessment of the individual proposals together in a format. If Deputy McGrath was disposed to withdraw his amendment such that there was no legislative compulsion on us, we would agree to bring forward such a report at the earliest possible date. We probably need a window of approximately three months, but we could do it. I will commit to doing it within three months.

Deputy Michael McGrath: Yes, I can see why the Minister would not necessarily want this in the legislation. The important issue is to have a response from the Department as this is a serious report on a potentially important area of economic development around the coastline. I welcome the commitment given by the Minister and withdraw the amendment.

Amendment, by leave, withdrawn.

Section 5, as amended, agreed to.

SECTION 6

Question proposed: "That section 6 stand part of the Bill."

Deputy Michael McGrath: What is the origin of this change? How was demand for it identified? Did lobbying occur in respect of it? What specific issue is being rectified by the measure?

Deputy Pearse Doherty: I am a little concerned about this measure. While we should be supportive of sport and Irish athletes, there are provisions in place to deal with income accrued from sporting activities, including fees and earnings. Provision has already been made to allow, for example, a golfer who wins the Ryder Cup to treat income from the win as non-taxable. The proposal in this section goes too far by breaking the link between pension contributions and taxable income. Sportspersons will be allowed to claim tax exemption on pension contributions made from non-taxable income derived from sporting activities. The relief available here is far in excess of the relief available to any other individual.

An argument can be made for sportspersons such as badminton players, boxers, cyclists, footballers, jockeys and others named in the Bill, for example, motor racing drivers, rugby players, squash players, swimmers and tennis players. Currently, only the percentage of their income derived from sponsorship or advertising fees on which they claim relief can be put into their pension. Under this proposal, they will be allowed to use other income, namely, fees, when calculating the percentage. That is my understanding and if it is correct, it is unfair. If I am incorrect, I ask the Minister to explain the position.

Deputy Michael Noonan: The general position is that these special provisions for sportspersons are related to the short period during which a sportsperson is active. The reliefs available would not apply to taxpayers in general who have a full working career of 35 or 40 years. According to the note provided to me, the sportsperson's relief is based on ten previous years of earnings, during which the sportsperson will have been paying into a pension. Sportsperson's relief essentially ring-fences any tax relief claimed on contributions paid to retirement annuity contracts, RACs, by professional sportspeople from a later reduction in income arising from a claim under this relief. However, this is not the case for personal retirement savings accounts, PRSAs. As a result, a sportsperson who takes out a PRSA could be disadvantaged over a sportsperson who takes out a retirement annuity contract.

The amendment provides that PRSAs are afforded equal treatment with retirement annuity contracts such that any relief awarded for contributions to a PRSA will not affect the amount of sportsperson's relief available to the sportsperson. As a result of this legislation, the relief received for pension payments is excluded when calculating the relief an individual receives under the sportsperson's scheme. If this relief was not excluded, the person would receive much less relief. As such, the measure provides for equalisation of RACs with PRSAs and applies to sportspersons who, by definition, have a short earning career from their sport. Its purpose is to remove an inconsistency in the scheme.

The initial contact on this issue came from the Irish Rugby Football Union, IRFU, or persons associated with that organisation. It was not made to me personally but was made officially to the Department.

Acting Chairman (Deputy Michael D'Arcy): Is the relief in line with reliefs available in other jurisdictions?

Deputy Michael Noonan: As different reliefs are available in different jurisdictions, I cannot answer the question in terms of detail.

Acting Chairman (Deputy Michael D'Arcy): Would somebody benefit from having a contract with Ulster Rugby rather than with the IRFU in this jurisdiction?

Deputy Michael Noonan: Yes, but normally someone who comes here from South Africa, New Zealand or another jurisdiction would not have a ten-year earning period here. He or she tends to have a contract of a maximum of a few years. The Acting Chairman knows how the system operates.

Deputy Pearse Doherty: I will study the Minister's note on this issue before Report Stage because it was difficult to follow when he read it out. Is it the case under the current scenario that for certain sportspersons, earnings derived directly from participation in sport, namely, prize money, performance fees, etc., as opposed to income from sponsorship, advertisements or endorsements, are subject to relief under section 480A of the Taxes Consolidation Act. Is that correct?

Deputy Michael Noonan: The relief applies to earnings which arise directly from participating in the sport in question, namely, prize money, appearance money, salaries, fees and similar payments. Relief is not given for indirect payments arising from sponsorship, endorsements, advertisements or other indirect payments the sportsperson may receive because of his or her status as a public figure.

Deputy Pearse Doherty: Let me take the example of a golfer who earns €500,000 in prize money for winning a competition. The individual in question is an Irish resident and his or her income is taxable in Ireland. Is it correct that he or she will not pay income tax on this portion of earnings?

Deputy Michael Noonan: All income tax is paid but it can be reclaimed on retirement from the sport.

Deputy Pearse Doherty: The net effect is that the golfer will not pay income tax on this portion of income because it can be claimed back.

Deputy Michael Noonan: The sportsperson can claim back anything earned in terms of prize money, appearance, salaries, fees and similar payments but cannot get relief on endorsements, sponsorship or advertisements or any of what we would regard as the big money associated with very well paid sports such as golf.

Deputy Pearse Doherty: I am not picking on golf but the net effect of this measure is that income tax will not be paid on prize money from golf competitions. It would be paid initially and reimbursed on retirement.

Deputy Michael Noonan: A percentage limit applies. The relief applies to 40% rather than 100% of prize money. In addition, PRSI and USC are generally chargeable on the income before the relief is granted.

Deputy Pearse Doherty: Does the 40% relief apply to prize money or earnings? For example, in the case of a football player paid €60,000 per annum, is 40% of annual salary exempt from tax?

Deputy Michael Noonan: It is 40% across the line, from prize money, salaries and the other categories I listed.

Deputy Pearse Doherty: My understanding is that this change takes the measures currently in place a little further. I ask the Minister to correct me if I am wrong. If a 30 year old football player with an annual income of €60,000 and a sponsorship deal with a particular company which gives him €50,000 a year, making a total annual income of €110,000, avails of the existing relief under section 480A which allows him to contribute 20% of his income to a pension and draw down the pension reliefs on that basis, will he now be allowed to put in 20% of the €110,000, whereas prior to this amendment he would have been allowed to put in only 20% of the €50,000 with the non-relieved portion of income? Is that correct?

Deputy Michael Noonan: The reason underpinning this proposed change is that up to now if a sportsperson paid money into a retirement annuity contract, RAC, that person got the relief that I described previously. If, however, the person paid the equivalent amount into a personal retirement savings account, PRSA, he or she did not get the relief. It is to give the same relief to people who contribute to PRSAs as to sportspersons who contribute to RACs. That is the only change. It does not change the amounts subject to relief. It equalises the relief available under a PRSA with that available under a RAC, which I do not fully understand.

Deputy Pearse Doherty: I will read the Official Report. I thank the Minister for explaining that to us. We may engage with his officials as well.

Question put and agreed to.

SECTION 7

Acting Chairman (Deputy Michael D'Arcy): Deputy O'Sullivan is standing in for Deputy Sherlock.

Deputy Jan O'Sullivan: I move amendment No. 12:

In page 8, line 9, before "Section", to insert the following:

"(1) Section 477B of the Principal Act is amended in subsection (1) by inserting the following new paragraph in the definition of "qualifying residence":

"or

(e) a tenant of a local authority property where the individual has received permission from the relevant housing authority to carry out qualifying work;",".

I wish to move this amendment on behalf of Deputies Burton and Sherlock. It relates to the home renovation incentive scheme under section 7. Its purpose is to include local authority tenants where the individual has received permission from the relevant housing authority to carry out the qualifying work.

Deputy Joan Burton: I commend this amendment to the Minister. The cost would be relatively modest but it would address an anomaly which I do not believe it was the Minister's intention to create when the scheme was created. The scheme has been very successful for people renovating their homes and it has had the effect from the Revenue Commissioners' point of view of being done by registered contractors, cutting down on the grey economy. It is not available to people in local authority homes. There is a large stock of local authority houses, many of which could do with being insulated and the replacement of windows and fireplaces. Many tenants do that in a situation where for a couple of decades local authorities have done very few repairs. If tenants are in employment, they may well plan, often with the help of a credit union loan, to refurbish the house but because they are tenants rather than mortgage holders or landlords, the two specified groups who can take advantage of a really popular scheme which has generated employment and improved the housing stock, they cannot avail of it. I have congratulated the Minister on the scheme on several occasions and support it strongly but it would be helpful to make it available to tenants, especially where significant work is being done such as building work, or a new bathroom or porch, and allow them to recover the VAT in due course in the same way as owners are able to do.

Deputy Michael Noonan: This is a very successful scheme and would have more than paid for itself over the years. A total of 47,000 homes have been improved under this scheme and approximately €1 million worth of work has been carried out, involving 8,500 contractors. It is quite significant. It came into operation in October 2013 with the aim of stimulating the legitimate tax compliant construction sector and assisting home owners to make enhancements to their properties. In budget 2015, I also extended it to landlords in order to assist them with making improvements to rental accommodation and to potentially increase supply by bringing units that are no longer in use back into the rental market.

The home renovation incentive, HRI, scheme applies to the owners of the property only, and does not apply to private residential tenants. Extending the HRI scheme in the manner in which the Deputy is suggesting would provide a difference of operation or application in respect of local authority tenants over those renting in the private rental sector. In any event, I understand that local authorities bear responsibility for the maintenance of housing that is rented to tenants, in the first instance. If, however, we were disposed to do it we could overcome that particular objection and line of argument.

More seriously, to qualify for HRI, works must meet a minimum spend of at least €5,000, including VAT. This could represent a significant outlay for tenants of a local authority property who might not obtain any long-term financial benefit from such an investment in their home. Furthermore, I understand that some local authorities assess rent liability based on the income and assets, including savings of an individual. In such cases, where an individual wishes to spend significant sums on refurbishments, an application to the local authority for approval could trigger a reassessment and a potential increase in the rent liability of that individual. We have consulted with the Department of Housing, Planning, Community and Local Government which has pointed out that it might have a knock-on effect on rent and I do not want to operate blindly. If it could be done I would be disposed to do it because I agree with the Deputy that some long-standing tenants, especially, are disposed to improve their homes without waiting for the local authority to do it when the wait can sometimes be very long. I would be subject to the advice of the committee and we could consider it between now and Report Stage but I would be relying on the advice of the Department of Housing, Planning, Community and Local Government on the rent issue before I could move on it.

Deputy Pearse Doherty: The Minister's figures show that there has been a high uptake of the scheme with 68,000 individual pieces of work across 46,000 properties to a value of over €1 billion. Deputy Burton's proposal has merit. The Minister has mentioned problems related to the amendment and its uptake, but they have to be addressed within the scheme. Interestingly, when one delves into the figures, one sees that 23% of the works are window replacements, 18% are kitchen renovations and so on. I support the scheme and its extension, but nearly one quarter of the works are window replacements. This scheme concerns labour intensive work, but the figure for home extensions is less than 10% and general repairs account for 13%.

The Government had two proposals at the time. One was to get many of those in the construction sector back to work, including window fitters. The other was to address black market activity. Going by what I have heard around the place, people do not take this option because the value of the work must be €4,405, excluding VAT. The uptake in the overall scheme is healthy, but let us take one county as an example. I could point to any, but there have only been 185 properties in Monaghan. In Wicklow, the number is ten times that. What is the reason for this? Is it because of lower incomes? Uptake is not evenly spread, and one would not imagine it would be, but it is heavily concentrated in Dublin and Cork, where the populations and higher value work are, for example, extensions and so on. There has been a relatively low uptake in certain counties: 175 properties in Longford; 162 in Leitrim, which is a small county; and 361 in my county of Donegal. This is over a period of three years. The threshold is still a barrier and should be reduced.

The scheme has worked well to date, but a cost-benefit analysis of it must be undertaken because we need to know the criteria on which it will be extended. My feeling is that it is going well and it is a good idea, but I would love to see more hard facts and data, for example, a cost-benefit analysis. I am concerned about the spread, though. It is not being taken up in many counties. In the past three years in Donegal, Monaghan and Leitrim, properties have been extended, windows have been replaced and doors have been done, but their uptake rates are being affected for some reason. Perhaps it is a lack of awareness of the scheme, a belief that it was not in the owners' interests or the fact that they have no tax liability.

The Government should consider reducing the threshold. I make this point in light of Deputy Burton's amendment. If the Minister is disposed to her amendment and given the fact that local authority tenants are improving houses that belong to the State, the threshold should be reduced for a start. We all know people who, having grown fed up with trying to get their local councils to fix leaky windows, front doors or whatever, have taken out credit union loans and done the work themselves. It does not cost €4,500, excluding VAT, but it does cost a certain amount, and a reduced threshold as a starting point would be one way of addressing this matter.

The number of contractors who have benefited from the scheme is interesting. While the number of works is 68,453, the number of contractors is 8,545. Repeat work is going to contractors. That is good, but one of the objectives was to try to get those involved in black market activity into the system. The figures are telling a bit of a story and the threshold is one of the problem's causes.

Deputy Paul Murphy: I support the amendment while taking on board the Minister's points. A choice is being given to tenants, but it should be given to everyone, including council tenants. We support the amendment and I am open to listening to Deputy Burton on how to deal with this issue now or on Report Stage. As a basic principle, the scheme should be open to council tenants.

Deputy Michael McGrath: I welcome the scheme's extension. The key measure of its success is whether it results in works being done that would not otherwise have happened. Undoubtedly, that has been the case. To take Deputy Doherty's point, any form of home improvement is welcome because it improves the living environment. Changing doors and windows can help with energy efficiency, for example, and these works generate economic activity. The scheme is positive in that sense.

If he can, I would like the Minister to accommodate Deputy Burton's amendment. The key difference between local authority tenants and private tenants is that council tenants have security of tenure and get a credit for any work they do on their houses if they become purchasers under the tenant purchase scheme. The amendment can be accommodated and formalised in that way. People wait a long time to get improvements funded through the general local authority system. If the amendment can be accepted and the barriers overcome, it would be a positive step.

Deputy John McGuinness resumed the Chair.

Deputy Joan Burton: I thank the Minister for his comments. The negative response is from the Department of Housing, Planning, Community and Local Government.

Deputy Michael Noonan: It did not oppose the amendment. It just pointed out this fact.

Deputy Joan Burton: It was concerned about it. Consider the history of housing in recent decades. Twenty-five years ago, the local authority carried out many of the repairs and improvements. That practice died away during the collapse and because people often did not like what the local authority did. I grew up in a rented house and lived there until my 20s. I know what I am talking about when it comes to having no autonomy over one's own house. Deputies who handle many local authority cases and meet many people in local authority areas will be familiar with the fact that, when tenants give up a local authority house, they ask whether they will see the fireplace, floors or windows they installed being thrown into skips courtesy of some council or other. Deputy McGrath is familiar with this issue. Everything is just sitting in a skip. In Cork, it takes two years for a local authority to redo the voided house. In recent years, Dublin local authorities have lowered that to less than one year. People want to put their own stamps on their houses.

I will cite the example of a couple who approached me recently. One member of the couple is working. Their local authority, which is a Dublin one, has not made any housing available for sale to tenants for reasons that we all understand. There are approximately 3,500 current and former local authority houses in my constituency. They are nice, but they are poorly insulated. The original windows are desperate. Normally, the houses are occupied by people who, for example, have been widowed. Even if they can make repairs, perhaps with their children's help, the scheme will not be taken up by everyone, but it will be by a certain group of people who would value investing in their houses to make them more comfortable. The notion that local authorities would vary the rent differential in estates of hundreds of houses can be taken into account, but many of the Deputies present have been council members. Why would Limerick City and County Council do so? It would just cause an incredible strain. If the Minister so wishes, we can come back to the matter on Report Stage, but there should be some degree of equity to the scheme.

Deputy Doherty made a very important point about bringing people out of the grey economy and registering them for VAT and other tax purposes, which is at the heart of the scheme. Once people register, they generally become legitimate, they and their employees ultimately enter into the PRSI system and we secure their pensions, futures and so on. I accept what Deputy Doherty said about rural areas. Maybe there could even be a variation whereby a local authority has a slight possibility of, say, varying the bands, bringing them down to €3,000 or €4,000. However, if major work is carried out on a house, the local authority would have to agree to it but it would take a big worry off its back that its stock of housing is deteriorating. If the towns are prepared to do it properly and get the VAT back, as other people are getting it back, it is a win-win for everybody. On that basis, I strongly commend the amendment to the Minister.

Deputy Michael Noonan: The scheme has worked very well, as Deputies have agreed. It was introduced in the first instance not only to improve housing stock, but also to try to get the building industry off the ground. At the time it was introduced, one could travel 100 miles of road without seeing a JCB at work or a bit of scaffolding around a house. The scheme achieved its objectives. I do not see it as a permanent feature of the tax code or incentives to building as the industry is recovering and re-establishing itself now. The scheme was scheduled to finish at the end of 2016. We are letting it go forward for a further two years, but I do not see it as a permanent feature. I am not sure whether the threshold is too high. It may be that people are not aware that a number of jobs can be accumulated over a period to the €5,000 level and that the scheme applies not only to the house, but also the cartilage. The laying of a concrete path down the back of a house or the landscaping of the front are eligible. Three or four jobs can be done to get to the €5,000 limit on the scheme. Maybe the local authorities or the Department need to explain it a little further to people. It depends on payment of income tax as well. While the rebate is calculated on VAT paid, the rebate is the income tax rebate to the level of VAT paid on the work. Maybe in different counties or parts of the country, people do not have the income tax liability to see in the scheme a significant benefit or any benefit.

Regarding local authority houses, again, the implication would be that the tenant in a local authority house is an income taxpayer who can avail of the scheme. However, I can see the incentive from the long delays in many local authorities while people await what would be regarded as necessary home improvements. Separately, there are also energy efficiency grants available from the Sustainable Energy Authority of Ireland. It would not be possible to draw the two together for the same amount of money. One would not get one's tax rebate on the grant, which stands to reason. A grant can be received for windows and doors as well. I will consider the matter between now and Report Stage. However, if we were disposed to do it, we would need to bring it in at a lower threshold for local authority houses without changing the general threshold. I will have to check if that is sustainable under the tax Acts of differentiating a scheme on threshold levels between different users. On the face of it, there does not seem to be any reason we would not do it that way. Maybe the Deputies could check with their local authorities to find out what their policies would be in terms of rent increases if this were introduced. I do not think there would be massive take-up of it, but it might be significant for a small number of people.

Deputy Joan Burton: On a point of information, as I said, there is a very large number of local authority houses and former local authority houses in my constituency. Unless something extraordinary was done, such as the conversion of a small local authority house into some kind of mansion, I would not be aware of any case in which the quality of work done by a tenant to a house would be taken into account in assessing a differential rent. The imposition on local authorities to assess that would be very difficult. In my experience, differential rents are calculated on incomes and the number of people in the house rather than on work the tenants may have done to improve the quality of the house. As far as almost every local authority is concerned, the more tenants do up their houses, the better for the whole estate, the quality of life for everybody on the estate and the desirability of the estate.

Deputy Michael Noonan: The signal from the Department of Housing, Planning, Community and Local Government was not that significant work done to a house would be taken into account. What would be taken into account was the assumption that the tenant had in excess of €5,000 in savings to carry out the work in the first instance, which should have been part of a means assessment for rent.

Deputy Pearse Doherty: I welcome the fact that the Minister will let us make further contributions between now and Report Stage. I urge him again to consider the issue. The figures for the scheme tell us a very clear story. When one considers it overall, it works out at €1 billion of works. When one drills down into the detail of it, 70% of that €1 billion of works is being carried out between Dublin and Cork. This is not working the way it should in rural communities. The other 30% is heavily concentrated around the counties surrounding Dublin. There are issues such as the fact that the tenant may not have taxable income. Not every tenant in such communities does. The value of the works in these communities is less than what the value of the works would be in the cities because of different price pressures. It is not a question of awareness; the threshold is an issue. If it is to be extended for two years, it is worth considering this issue because we have enough data over three years. For counties only to have 200 or 300 properties under a scheme that has operated for three years now shows that it is not working. The works are taking place but they are either falling outside of the threshold or the tenants believe they do not have the taxable income to benefit from it.

Deputy Michael Noonan: Is the work being carried out by direct labour? The scheme is confined to contractors who register with Revenue.

Deputy Pearse Doherty: That is the point. We are trying to encourage people to carry out works, but the threshold one must reach is quite significant. While changes were made to the scheme to allow one to roll it over and build up the €5,000, many people do not think like that. They think they must get the windows or doors done, which can come in at €2,500, so they just get a contractor in to do that, and sometimes the contractor may be unregistered. They do not think about what else they can do. Sometimes they do not have the money. The figures tell us a story. The scheme is not working in the rural communities as it should. There is a disproportion in the value of the works carried out. They are mostly being carried out in Dublin and Cork, outside of which, counties such as Kildare and Wicklow are the ones that have the high uptake. Again, Limerick has quite a large uptake as well. However, Longford saw 175 properties come under the scheme in three years and Monaghan saw 185 over three years. That is fewer than 60 properties per year. There is an issue and it is worth examining whether the threshold is the issue.

Deputy Michael McGrath: I wish to give the Minister feedback on the point made by the Department of Housing, Planning, Community and Local Government that knowing that a tenant had a certain lump sum or savings available could impact on the calculation of his or her rent. Certainly, under the differential rent schemes that I am aware of in both local authorities in Cork, it is based on income. One can argue that interest income would be included but there is no conversion of capital to income under those differential rent schemes. I do not believe that argument is valid, unless it applies elsewhere in the country. In my experience, it is certainly not.

Deputy Michael Noonan: I will look at it between now and Report Stage.

Chairman: How stands the amendment?

Deputy Joan Burton: I will not press the amendment but I will reserve the right to bring it in on Report Stage. If the Minister can bring forward his own proposal, my party would be supportive of that.

Deputy Michael Noonan: I am not committing to revise the scheme in general. I am committing to look at Deputy Burton's proposal.

Amendment, by leave, withdrawn.

Section 7 agreed to.

SECTION 8

Chairman: Amendment No. 13 in the name of the Minister. Amendments Nos. 13, 14, 17 to 20, inclusive, 23 to 30, inclusive, 35, 41 to 44, inclusive, and 48 are related and will be discussed together.

Deputy Michael Noonan: I move amendment No. 13:

> In page 8, line 20, to delete "subsection (5)" and substitute "subsection (4)".

Many of these amendments are minor in nature, involving a drafting change or a correction to cross-references within the new section 477C. I will outline briefly the main substantive revisions.

Amendment No. 14 introduces a revision to the definition of "qualifying loan" to make it clear that the inclusion of a guarantor as a party to a loan agreement will not prevent the loan from being a qualifying loan for the purposes of the scheme.

Amendments Nos. 17 and 23 introduce the concept of a "relevant tax year" into the section. The reason for this is to allow first-time buyers flexibility as to the years in respect of which they can claim the rebate. With this amendment, claimants will be allowed choose any or all of the tax years within the four tax years immediately preceding the year in which they make their application.

Amendments Nos. 24 and 25 introduce greater flexibility around the obligation on PAYE taxpayers to submit a tax return. As currently framed, all claimants would be required to submit a tax return and pay any income tax and USC payable in respect of each of the four preceding tax years, if they have not already done so. However, as taxpayers whose income is solely taxed under PAYE are not obliged to make an annual tax return, unless required to do so by the Revenue Commissioners, I am amending the obligation on PAYE taxpayers so that they will not necessarily be required to submit a tax return for each of the four tax years preceding their application. Under these amendments, they will only be required to submit a return for the tax year or years which they consider necessary to allow them to maximise their rebate.

For example, if a PAYE first-time buyer is satisfied that he or she has paid sufficient tax in 2016 to get the maximum rebate of €20,000, the he or she would only be required to make a tax return for 2016. If another PAYE first-time buyer is satisfied that he or she has paid sufficient tax in 2014 and 2016 to get the maximum rebate of €20,000, he or she need only make a tax return for 2014 and 2016. However, if a PAYE first-time buyer needs to draw on tax paid in all of the four years, 2013 to 2016, inclusive, to get a €20,000 refund, then tax returns would be required for each of those four years.

Amendment No. 26 introduces a revision to the tax clearance requirement on applicants. The obligation to have a tax clearance certificate will only apply to self assessed taxpayers. Amendment No. 30 introduces a revision to subsection (7) in order to ensure that certain applicants do not suffer as a result of the four-year limit that applies to the making of a tax refund by Revenue. For the purposes of defining the four tax years from which income tax and DIRT are to be taken for the refund, subsection (7) allows in certain circumstances for an application which is made in 2017 to be deemed to have been made in 2016. Paragraph (a)(i) provides that the 19 July to 31 December 2016 cohort may elect to have their application deemed to have been made in 2016, provided the application is made on or before 31 March 2017.

Paragraph (a)(ii) provides that the 1 January to 31 March 2017 cohort may elect to have their application deemed to have been made in 2016, provided the application is made on or before 31 May 2017. In order to ensure that such applicants do not breach the four year limit that applies to the making of a tax refund by Revenue, it is necessary to amend this subsection to say that a claim on foot of such an application will also be deemed to have been made in the tax year 2016. The reason for this is because the four years which will apply for the purposes of the refund will be 2012, 2013, 2014 and 2015. In 2017, making a refund from the tax year 2011 would be outside the four year time limit.

Amendment No. 35 inserts a new paragraph (c) into subsection (8) which deals with the validity of applications and when they cease to be valid. An amendment is necessary to make it clear that no claim can be made on foot of an application which ceases to be valid. Amendment No. 41 introduces a minor revision to subsection (17). This subsection sets out the clawback provisions which will apply where a claimant ceases to occupy a qualifying residence within a five-year period. The amendment simply adds an obligation on a claimant to notify Revenue when they cease occupation.

Amendment No. 42 simply involves a rewording of paragraph (a) of subsection (18). This paragraph provides for a clawback of the refund from a claimant where the claimant is not actually entitled to a tax refund under the terms of the section. That could arise, for example, where it emerges that the claimant was not a first-time buyer. The wording of the paragraph has been amended to a minor extent to ensure that it fully reflects what is intended. Amendment No. 44 involves a minor rewording of subsection (20)(c) to ensure that the collection and recovery provisions in Part 42 of the Taxes Consolidation Act 1997 apply to the clawback provisions governing the scheme.

I commend all of these amendments to the committee.

Deputy Pearse Doherty: Is it correct that amendment No. 14 allows for a company to lend the director of the company the money to purchase the house, and he or she would be still eligible as long as interest was paid to the company?

Deputy Michael Noonan: It only applies to mortgages from financial institutions.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 14:

> In page 9, line 18, after “lender” to insert “(but this does not exclude a loan to which a guarantor is a party)”.

Amendment agreed to.

Amendment No. 15 not moved.

Deputy Joan Burton: Chairman, amendment No. 15 has been ruled out of order, but can I just say that in regard to the help-to-buy scheme, we were given a commitment over a long period of time that a cost-benefit analysis would be set out and an impact assessment statement would be done in relation to various tax reliefs and introductions into the Finance Bill? That has been a fundamental principle which has been advocated by many Members in the Dáil but also by others, such as the tax strategy groups. It is proposed that this scheme would run until December 2019. The purpose of the Labour Party’s amendment was that it would be terminated by a sunset clause at the end of December 2017. This would ensure there would be an opportunity to assess the impact of the scheme on the market. The Minister is aware a significant amount of commentary suggests the consequences of this scheme will be basically to help developers and push up the price of housing. A small group of people who are in a position to benefit from the scheme immediately may do so. However, for others, who will be purchasing in the next period of time, it will actually drive property prices up, so there will be no net gain. In a certain sense, it is a distraction.

I do not know the argument behind it. The Minister may feel it is a confidence-building measure for developers and builders, who in many cases are on strike, and for banks, which in many cases are on strike as regards giving credit to small and medium-sized developers and builders. This is partly because the builders and developers either have an impaired credit record from the crash or lack equity. The banks, as people who deal with them know, are keen on people looking for loans to be able to show equity in a project. The Minister may be trying to address the specific issue that there are not sufficient lines of credit available, particularly for small and medium-sized developers. However, the NAMA-style developers or international investors, by and large, have lines of credit available to them.

I do not see why this scheme should be in place up to 31 December. The Minister rightly said on amendment No. 12 that when one puts a scheme in place, it is relatively difficult to withdraw it, particularly when it is successful. In this particular case, however, a serious cost-benefit analysis needs to be done. Accordingly, I do not think it is right to allow such a long period for a scheme when there is no requirement to produce any evidence upfront. A wide range of observers of the property market, as well as the institutions which spoke at the new budgetary oversight committee, have said this scheme is not going to contribute very much to the housing crisis, other than pushing the price of houses up. In effect, it is a subsidy to the developer. It would be much better if the Minister devoted the work and the energy to trying to sort out lines of credit for those developers and resolved the equity issues which are a particular problem for the banks.

Deputy Stephen S. Donnelly: Understandably, we seem to have moved into a conversation on policy rather than the specific amendment. If I could, I will also do the same.

When we went through this with the Minister at the budget oversight committee, he agreed it would be a demand-side policy measure and, in increasing profits to developers of new homes, it would fuel development of new homes, even though it would obviously increase the price. On the day it was introduced in the budget, probably as he was reading it out in the Chamber, prices went up. There is a development a few hundred metres from where I live. Prices there went up within hours of the Budget Statement. This will swallow the entire amount of the relief. I know Deputy Michael McGrath has cited other anecdotal evidence from around the country. It has already done, in limited cases, what Deputy Joan Burton described.

A potential house buyer might have had access to €300,000. They get a free €10,000 from the State from the scheme. Suddenly, the property goes up by €10,000. They are no better off. When we discussed this with the Minister at the budget committee, my sense was that it would take a little bit of time to do this. As Deputy Joan Burton said, maybe the first few first-time buyers might get some sort of help. However, it has happened instantly.

Everyone accepts this scheme is going to drive up the price of new homes. The Minister himself accepted that at the last budgetary committee. It will probably lead to some new homes being built. A supply-side approach would also lead to new homes being built but would drive down the purchase price. One of the lessons we should have learned from the crash, which many people are living through and will for the rest of their lives, is being overleveraged. Increasing house prices is essentially overleveraging people. A fantastic analysis by Senator Elizabeth Warren showed how in the US over the past several decades, the majority of additional household income, which has come about through better technology, better education and women moving from unpaid to paid work, has gone into higher mortgages. They are not living in bigger houses; they are the same houses. The same has happened in Ireland. What the Minister is proposing will make it worse. The first few first-time buyers may get some relief from this scheme. The rest will not because it will be priced in straight away. Indeed, it was being priced in as the Minister was reading it out in the Budget Statement in the Chamber.

It makes everyone else worse off, but particularly the negative equity generation. We have a large cohort of people who bought apartments and small homes between 2004 and 2008. They paid massive stamp duty, property taxes and second home taxes. Many of them ended up accidental landlords. They might have moved out of an apartment to raise kids and are renting it out while they rent somewhere else themselves. They have been hit with massive tax bills as a result. It makes them worse off. Take the example of two couples. One could be first-time buyers in their late 20s and the other could be a negative equity couple as I described. They both could be trying to get the same house. The first-time buyer has no legacy debts, may have no children and, chances are, their household costs are lower. We are giving them free money to buy this house. We are not, however, going to give the free money to the couple beside them in the line, who are in a much worse situation because they have legacy debts and are starting from minus €100,000. Ahead of the measure being introduced, what I and other committee members suggested would happen, happened instantly, thereby making the first-time buyers no better off and, critically, making the negative equity generation, who are stuck, even worse off. It just is not a sensible measure.

It is not like there are not any other options. There are plenty of supply-side options. As the Minister knows, the residual value is going to the owners of the land. It costs approximately €150,000 to build a semi-detached house in Dublin but it sells for €450,000. Up to €300,000 is floating around from the purchase price not going into the cost of build. Some of it goes to the builder's margin but the majority of it is going to whoever owns the land. What we have is not a market failure but a regulatory failure. There is no shortage of bricks, wire, glass or roofing slates. Let us take a house near here and state it costs €150,000 to build it but someone will pay €450,000 for it and the extra €350,000 will go into the land. In all of the places where there is a high demand for people to live, the zonable land is either constrained or there is no incentive on those who may be hoarding it to develop it for residential use. This policy is ineffective and unfair on that negative equity generation. It will make things worse for most people. We need to incentivise residential development, but there are many available supply side measures, including zoning more land and investing in infrastructure to make that land available for development or applying a tax to zoned land in strategic areas to incentivise development.

Deputy Michael Noonan: We have moved from the amendments into the substantive issue. The measure is being introduced as one part, and indeed a small part, of many actions to develop a fully functioning housing market that responds adequately to the needs of our citizens. They are all included in Rebuilding Ireland, the action plan for housing and homelessness which was launched last July. Every Deputy in the House knows the importance of repairing the construction sector and taking across the board action to increase the supply of houses. It was identified at the housing committee of the Dáil that this should be a priority, and it is a priority in the programme for Government.

Implementation of the plan is being led by the Minister, Deputy Coveney, and the Department of Housing, Planning, Community and Local Government. There is cross-departmental support for this. It is a huge issue. It is probably the biggest issue facing modern Ireland at this point in time despite all of the other difficulties around. The comprehensive action plan takes an holistic approach in addressing the many interacting structural constraints affecting the housing market in areas such as planning and land use, as well as regulation and skills deficits in the construction sector. While the primary focus of the action plan is to tackle structural constraints, fiscal supports can play a supporting and time bound role in addressing the current problems in the housing sector. It is in this context the help to buy scheme should be considered. Its role will be to complement the other measures in the action plan.

As to the extent to which the scheme could lead to an increase in residential property prices, there may be an increase but it very much depends on the speed and efficiency with which the industry responds. My background was as a teacher. When I got married at 26 years of age I was able to raise the money to buy a house, as were people in my peer group such as young nurses, gardaí and civil servants. This was the pattern. It was a long time ago, when salaries and real purchasing power were much less than they are now, even after the corrections done through the recession. The situation now is that while people of my generation were able to afford to buy houses the generation now cannot afford to buy houses. The principal reason is they cannot put the deposit together. This is the big constraint. They can get the mortgage; it varies depending on the prudential rules of the Central Bank, but by and large it can be raised.

The big constraint now is that frequently young people and young couples pay more money on rent then they would pay on a mortgage. As a result of the inability of the type of couples I am describing in the public and private sectors to come up with the deposit required, these houses are not being built. The point on the price of a three-bedroom house in a typical residential estate, which was commonplace 25, 30 or 40 years ago and which was the starter home for Ireland at the time, is an unproved assertion, because these houses are not being built in the cities any more. If we look at the recovery in the housing market, it is in more expensive houses in the €400,000 to €600,000 category. This is what is being built. Very few three-bedroom semi-detached houses are being built, which were the typical starter homes. The prudential regulation has aggravated this somewhat. People are caught in a trap where they pay heavy rents and rents are increasing because the supply is restricted. Because they pay so much on rent they cannot put together a deposit. We must try to break this vicious circle.

This is only one initiative, but it is an initiative to allow people who are working, paying rent and paying income tax to get a rebate of income tax to help them make the deposit. As the Deputy knows from the scheme now because it has been well discussed, for people paying €300,000 for a house, which is approximately the price of a starter home in Dublin in particular, the deposit will be 10%, which is €30,000, and they will be able to get €15,000 under the scheme so now they must save €15,000. If a house costs €400,000, which is the limit in the scheme, the deposit is €40,000 and people can get €20,000 a rebate on taxes if they have paid that much over the previous four tax years cumulatively. If it is a couple this can be doubled, as it is the combined tax payment of the couple. We must do something to crack this. It is a huge problem. We can do all of the supply side measures we like, but if we cannot address the issue of people not being able to put together a deposit the builders will not supply because the demand will not be there.

I fundamentally disagree with something Deputy Donnelly said previously and implied again today. In our previous discussion on this, he told me a leaving certificate student in his or her first month in economics would know that if we are addressing supply we can only do it through the supply side and not through the demand side. This is not true. Supply always in a proper market responds to demand. He may remember something we did years ago. It was not I who did it, it was Ruairí Quinn, which was the car scrappage scheme. How did this work? Bad cars were taken off the road by giving people £1,000 at the time, with which they bought new cars. What happened on the supply side? Cars were imported to serve the demand and supply responded to cater for demand. It happens all over the place. If there is a new money demand for something supply responds. It either responds in the domestic market or it supplies by the need being addressed by imports. It will happen here as well. Whether it increases the price of houses or not is a moot enough point, because the type of house we are speaking about is not on the market. It is not being constructed at present except for very isolated places.

I was as surprised as Deputy Donnelly was when, on the day we first introduced the scheme a developer, and supposedly a reputable developer, in Wicklow announced an increase in prices. I was so annoyed about it I went to the former Minister, Tom Parlon, and asked him to explain it. He addressed it and told me it was a coincidental announcement. It was not as a result of anything we did. It was something that was going to be done anyway with a second phase of houses because the first phase had been built. I do not know whether or not this is true, but I accepted the explanation because I have a certain regard for the man and I believe his heart is in the right place in trying to do the right thing by the Irish people on this issue.

On the Deputy's argument that this discriminates against people in negative equity, I believe it does the opposite. If the Deputy's first argument is correct and this drives up the price of houses, it will reduce the negative equity element of people who have negative equity because the value of their property will increase. It seems to me the Deputy can sustain one of the arguments but not both because they cannot both be correct at the same time. Will it work? I believe it is right and it is there for a three year period. We did not do an impact study because within the time available we did not have time, but two amendments have been tabled, one in the name of Deputy Michael McGrath and one in the name of Deputy Joan Burton, on impact assessments. When we come to these amendments I will deal with it. I am not adverse to doing impact assessments, it is just we could not do them up front and introduce the scheme when it needed to be introduced. We are dealing with an emergency. When I discussed it with the Governor, the Central Bank agreed that it would be taken within the prudential rules and that it would be deemed to be an adequate contribution to a deposit to qualify under the prudential rules as enunciated by the bank. Of course, I did not get into crossing the t's and dotting the i's because the only piece that was relevant to the Central Bank was if it would be acceptable under the prudential rules.

The other thing to remember, if Deputy Stephen S. Donnelly's argument is correct, is that it would increase the price of houses and that, as a consequence, there would be no long-term benefit. If the price of houses was to increase, it would increase the mortgage liability over a 25 year period, but it would not necessarily increase the deposit required, or it would only increase it marginally. If the issue is the availability of a deposit, as long as we can contribute seriously to a young couple producing a deposit - while I do not agree that it should trigger house price increases - if there was to be an increase in house prices, the liability would be spread over the period of the mortgage. In doing it this way the key issue is still being addressed in providing assistance in seeking a mortgage. It may not work. I have spent six years listening to celebrity economists tell me that things will not work. They said we would have to default, that we would all be ruined, that nothing would work, that there was no point in cutting the rate of VAT for the hospitality industry and abolishing travel tax as it would not work. There are people who are against everything, but there is no point in being a Minister if you do not try things when there are problems. The Minister has to move to try to address issues. Conventional wisdom does not always address them. This is that kind of scheme to address the lack of supply due to the inability of young couples to come up with an adequate deposit for the purpose of purchasing a starter home which is typically a three-bedroom semi-detached house in an estate. It also addresses the issue of single houses in rural Ireland, where a couple may be given a site on which to build by their parents, parents-in-law or relatives. Slightly different arrangements would have to be made in that instance because such couples do not always use a contractor to carry out the work. Where a mortgage to the value of 70% of the house is raised, the issue can be addressed.

I know that I will not convince everybody - actually I am not trying to convince anyone - I am trying to outline my thought process in putting the scheme together and explain why we did it. We have listened to advice and are introducing some amendments in order that it will work effectively. We will talk about the impact assessment study when we come to the relevant amendments.

Chairman: It is now 5 p.m. at which time we agreed to suspend the sitting until 6 p.m.

Deputy Pearse Doherty: Has there been any update from the clerk on the reasons amendments have been ruled out of order because we are proceeding to the next section?

Chairman: Yes, the clerk will be here.

Sitting suspended at 5.05 p.m. and resumed at 6 p.m.

Chairman: We will resume our consideration of the Finance Bill in public session. I wish to inform members that the clerk and I met departmental officials during the break to discuss the decision to rule some of the proposed amendments out of order. It is part of Standing Orders and we do not have control over it. The decision was made based on the amendments having the potential to impose a charge on the people from a particular date. If it is a date in the future, then that is different and that is why some of the amendments in Deputy Stephen Donnelly's name were allowed. Other than that, the amendments are out of order and I cannot change that because of Standing Orders. The Deputies will have to take it up directly with the officials.

We are on section 8, with amendment No. 16 to be moved. I ask the Minister to move the amendment.

Deputy Pearse Doherty: Before we come to amendment No. 16, I want to take issue with some of the Minister's comments on the section. Before the break the Minister gave his view as to why the scheme is necessary and the relevant sections are necessary in the Finance Bill. He made the point very clearly that this was related to the inability of individuals to amass the necessary down payment or deposit to meet the Central Bank mortgage rules. However, what the Minister is putting before us does not just address that issue but goes much further. What the Minister is putting forward in this section, allowing for a loan to value ratio of 70% and allowing for the purchase of a house to the value of €500,000, means that someone who has a deposit of €150,000, which is double what is required under the Central Bank rules, is being provided with a €20,000 tax rebate. That does not make any sense. Individuals who already have a deposit in excess of what is required under the Central Bank rules will still be eligible for the €20,000 rebate. That is an extreme example, involving a 70% loan to value ratio and a purchase price of €500,000 but there is still a problem with other scenarios. Even someone with €80,000 who wants to purchase a lower priced house would, because of the loan to value ratio, have in excess of what is required to draw down a mortgage and yet the State is going to benefit him or her with a tax rebate of €20,000. The Minister has said that the issue is not about an increase in house prices. However, as sure as night follows day, house prices will go up. We are already seeing evidence of that as a result of this measure.

The Minister also referred to the fact that this will be drawn out over a 25 or 30 year period but unless he decides to keep this going indefinitely, there will be an issue at some point when the tap is turned off. The Minister also made the point that the issue is supply and argued that the way to address the supply side problem is to increase demand. However, evidence suggests that demand already exists and that people can reach the loan to value ratios. Indeed, in the Central Bank's letter to the Minister, myself and others, the Governor points out that the average loan to value ratio for mortgages issued by the financial institutions is less than 80%, which is lower than what is required under the macroprudential rules. The Banking and Payments Federation of Ireland has produced figures on first-time buyers here. The data that I have in front of me on mortgage approvals, which comes from a report published in September 2016, shows a year on year increase in mortgage approvals for first time buyers of 24.9% and in mortgage draw downs of 11%. The approvals are happening at a faster rate than the draw downs, which raises an obvious question. If so many people are being approved for mortgages, why are they not drawing them down? The Minister has argued that the problem is that they cannot get mortgages in the first place but that is not accurate. The Central Bank pointed out that the average loan being issued by the financial institutions is below the macroprudential rules, which is why the Minister changed the loan to value ratio. The Banking and Payments Federation of Ireland has shown that the rate mortgage approvals is exceeding by almost 50% the rate of mortgage draw downs.

The issue is supply and this scheme is a very bad idea. I understand why Mr. Tom Parlon supports the scheme because it will put money into the pockets of developers. I do not believe that developers are not building because there is not enough demand. Demand does exist. If developers are not building because there is not enough profit, because they are not able to make a return of 10% to 15%, that is a whole different argument and we must have an honest debate on that issue. There are two ways to address it on behalf of developers. The first is to provide this grant, in the form of a tax rebate to individuals, which will push up house prices and improve the profit margins for developers. The second way to address it, which is what we should be doing here, is to determine ways to reduce the cost of building. We should be looking for ways to bring down the cost of building houses which will benefit not only builders, but also those who want to purchase a home. We must bear in mind that when a person takes out a €300,000 mortgage over a 30 year period at today's interest rates, he or she will pay back about twice that amount. As such, the Minister's scheme is fatally flawed and the idea that we should introduce an analysis post the fact is barmy and bonkers. This was mooted months ago by the Minister for Housing, Planning, Community and Local Government and the Minister for Finance would have had an idea about it. That no analysis has been carried out by the Department of Finance of the impact on house prices and other sectors, as well as on supply and demand, is unacceptable and the wrong way to propose policy. This will have long-term consequences, which is why I am recording some of the facts from the Central Bank on mortgage drawdowns and mortgage availability as they completely destroy the arguments the Minister has made for this type of initiative. I have no doubt that it comes from a desire by the Government to address the issue, but while reference was made to celebrity economists, I have heard no one, celebrity or otherwise, outside the Construction Industry Federation and the Government say this is the way to address the housing crisis. We can call them whatever we want, but across the divide it is being said this is not the way to deal with it. The Minister, rightly, called it an emergency, but this is tackling it at the wrong end. The amount of money being spent on this type of solution should be invested in other ways to ensure the price of starter homes will come down. The Minister said the scheme was aimed at starter homes. If that was true, he would not be allowing for houses to the value of €500,000 or €600,000 to the end of the year. That is the reality. He said the cost of a starter home - a three-bedroom, semi-detached house - was €300,000, although it is probably in excess of that figure. If this was about starter homes, he would have gone with that limit. However, what he is allowing for in the scheme is for individuals to buy houses up to a value of €500,000, which is not the type of starter home he suggested.

Deputy Joan Burton: I want to pick up on one of the elements of the Minister's commentary on the Central Bank. The *Daft.ie* report published yesterday which showed a massive increase in rents included as an example the cost of a mortgage to buy in Dublin 5 as being €1,287, whereas the rent on the same house would be €1,500 per month. There is a sector of people who are renting and may have very good jobs. The Minister spoke about the Central Bank. I made a submission to it in which I strongly proposed that it take into account those persons who were renting for a significant period, perhaps two or three years, in assessing their financial discipline and ability to pay in identifying the deposit needed by them. People who had been working for ten or 12 years but did not buy because it was too expensive at the tail-end of the Celtic tiger period rented as many celebrity economists had advised them to do at the time. Initially, there were a lot of rental properties available, but those families are now stuck. If someone has two or three kids and rent payments of €1,500 to €1,800 per month, his or her capacity to save for a deposit is much more limited than someone who lives at home. I am sure the Governor of the Central Bank heartily approves of the latter, but there are other things that have to be done to enable people to purchase a home. People are paying extraordinarily high rents in Dublin, Cork and Limerick as mentioned in the *Daft.ie* report. The monthly mortgage repayment on the house mentioned would be €1,287, but the rent would be €1,500 and the landlord would probably come back to say there were others who would be willing to add another €200 or €300 to the rent because they were so anxious to secure the property. That is a real problem and it requires rent regulation. However, that is a separate issue which I will not raise now. In identifying areas where one could help people who need to be able to buy a house and who have the wherewithal to do so one would be much better placed in requesting the Central Bank to look at this issue. Many of the local authorities in the Dublin area, in particular my local authority of Fingal County Council, have always looked at people's financial commitments. If they were paying rent for a significant period, with all of the discipline that involved, they were allowed to include this in the assessment in respect of a mortgage to rent property, a low-rise mortgage or a local authority SDA loan.

Other than the flashy publicity the scheme has generated, I am not sure of the point of it. The Minister's feeling may be that generating that publicity will, in some way, kick start the market, but I do not think that will happen. At this time having serious house price rises is counterintuitive to everything about the market. The problem for developers who cannot build is that they do not have the credit lines and equity the banks now require in order to obtain credit. The purpose of the amendment is to reduce significantly the time period for which the scheme would extend to provide in real time for an actual assessment of its impact. This goes against everything that has been said about introducing new tax breaks and incentives. They should be costed and evaluated and there should be a cost-benefit analysis and an impact assessment, with decisions being made on that basis thereafter.

Deputy Stephen S. Donnelly: I take on board the points the Minister makes. We both agree that supply must increase and that people need access to the market. I agree fully that many first-time buyers cannot raise €20,000 to €50,000. Where we might differ is that I believe the access argument applies both to first-time buyers and the negative equity generation. While I do not agree with what it is doing, I ask that the Minister at least consider before Report Stage including that group too. The measure is obviously going to go through. I take the Minister's point that increasing prices reduce the net liability of somebody in negative equity, but the argument he made about first-time buyers not being able to save the deposit applies to the negative equity group. Even if prices go up and their liability goes down, they are at best still dealing with debt the first-time buyer does not yet have, but they are trying to buy the same homes and cannot save the deposit. If the Minister is going ahead with this measure, as he obviously is, I ask him to consider on Report Stage extending it to the negative equity generation. He is literally talking about the same people standing in the same queues to try to buy the same houses. He is introducing something that will help first-time buyers to save a deposit, on which I take his point, but the men and women standing beside them cannot save a deposit either. He might take this into consideration.

The Minister made a point about supply and demand. I agree that if the Minister changes the demand curve, which is what this will do, supply will be affected. I never suggested that would not be the case. My point was that if one tries to increase the number of houses being built, which is the equilibrium between supply and demand in any given area, by moving supply through rezoning land, site value taxes and other supply side measures, the supply will increase but, critically, at the same time, the average price of a house will reduce, which is important.

While I accept if demand is fuelled, the number of houses that are built will increase, the problem I have is the price will also increase. It is my contention that higher property prices in general are bad for society because we end up further in debt.

The Minister presented a reasonable argument in terms of this being a policy to help first-time buyers save a deposit because they are caught in a trap. If there were some other way of achieving that, which did not potentially push up prices, such as the Central Bank saying it will retain the income ratio of 3.5 but reduce the size of the deposit because it is causing all sorts of unintended consequences and is locking people out - the affordability point is the income multiplier - would the Minister scrap this scheme?

Deputy Peter Burke: I welcome the scheme. The alternative is to do nothing and we cannot go down that road. People need assistance to get a mortgage. On 23 October, Mr. Brian Keegan, a director of taxation at the Institute of Chartered Accountants, wrote an interesting article. He said behaviour following schemes that have been introduced on foot of various tax incentives does not always follow the route classic economics dictates that it should. He pointed out a number of examples where behaviour did not follow suit. We should take note of that. This scheme addresses a cohort that cannot access supply at the moment and it is not targeted at all homes. If it applied to all homes, price increases would result. This is a good article, which is written subjectively and goes all through all aspects of the scheme. Pension relief is another example of the benefit being disproportionate to the incentive provided. We can quote different economic indicators, economists and classical economics but it does not always follow and there are loads of examples in this regard.

Deputy Michael McGrath: We made our views on this known during the budget debate and I will not repeat them at length. Our view is this is not the right intervention. It is a supply problem primarily and to stimulate supply, the Minister faces a few choices aside from the bottleneck issues of land availability, zoning, serviced land and so forth. The fundamental choice is to increase prices or to reduce the cost of delivering new homes. This measure will place upward pressure on prices. There is anecdotal evidence of that, which may not be proven categorically, but it is inevitable that there will be upward pressure on prices in certain sections of the market and I believe that the Minister believes that is not such a bad thing because there are benefits for builders. It will certainly help to improve supply. There are also benefits for banks in respect of strengthening their balance sheets but it will have an impact on the indebtedness faced by borrowers. As Deputy Doherty said, with any intervention, there is an end date and whether one accepts or not that there is a distortion when the intervention is made, there will certainly be one when it is ended. How will it be possible to phase this out, given it is currently proposed to be in place for a number of years?

An independent impact assessment should have been conducted before the decision was made. That could have been done quietly. This was mooted back in July when the Rebuilding Ireland programme was first announced. There was time, therefore, to conduct an impact assessment. The predominant problem is supply and the focus should be on examining the cost of delivering new homes. We will go through the amendments later that deal with that issue, the issue of the impact assessment and some changes we propose relating to self-builds and non-self-builds and so forth.

The reality of the situation we are in is Fianna Fáil has a confidence and supply arrangement with Fine Gael. It does not provide for this intervention in the property market. We are committed to facilitating the passage of budgets provided they are consistent with principles in the agreement. It would not be reasonable for us to say the Government cannot bring forward measures in its own right that we may not agree with fully. We do not agree with this but we will not block it. We will seek to shape it and to insist on an impact assessment at an early opportunity.

Deputy Richard Boyd Barrett: Most of the points have been made. This is a new variation on an old and failed theme when the supply of housing in whatever form it takes that people can afford based on their incomes needs to be increased. The Government is instead returning to an old theme, which is to incentivise developers with tax breaks relating to property. The tax break in this case is hoped to increase supply and to incentivise the private sector to deliver housing. We have been down this road previously and it just does not work. It led to disastrous consequences. The evidence is clear that this proposal is driving up prices and, therefore, the benefit, if any, to the target group of first-time buyers is highly dubious but, in any event, it is completely the wrong way of approaching the problem. It smacks of the addiction that seems to exist of looking to the private sector to deal with this problem and trying to incentivise developers and bankers rather than the State directly providing the low cost housing that is needed. I do not understand why the Government does not grasp that fact. One does not have to be a radical left winger to understand this. Large scale provision of low cost housing was directly provided by the State previously. It is cheaper, more effective and quicker, but, instead, we have these round the houses approaches and the circuitous route to trying to solve the problem always goes via the bankers and the developers rather than going directly at it. We absolutely reject this as a solution and think it will add to the problems rather than solve them.

Deputy Michael Noonan: I thank all members for their contributions and I would like to tease this out further to see if there is any agreement across the House on this. Everybody agrees that not enough houses are being built at the moment to meet the potential demand, especially from first-time buyers, and analogous to that, rents are increasing because there is not a sufficient supply of apartments and houses to rent. It is all part of the same market failure in the housing and development sector. We are where we are, which is the cliché that is always used to describe these circumstances but we know how we arrived there as well. As I said previously, as well as implementing the troika plan that was negotiated principally with Fianna Fáil back in 2010, the Government from 2011 on brought in a parallel plan to repair the economy sector by sector. I have no hesitation in saying that building and development was the sector that was most difficult to deal with. There are still huge residual problems in that sector even though we have restored agrifood, farming, tourism, foreign direct investment, financial services and so on. This is the residual sector and a lot of it is for the reasons that members will know. As well as that, the sector got into such a state of disrepair that it became the scapegoat, probably rightly. Bankers and developers were blamed for the crisis. As a result of it becoming a scapegoat, it was very difficult to repair it or to do anything to lift it off the ground, and we have the residue. Everybody, I think, agrees that there is a problem in the sector of supply. Whether it is for purchase or for rental or whether it is apartments or houses, there is a supply side problem. That problem is most acute at the starter home and apartment rental level, particularly in a city like Dublin. I think there is agreement on that.

The approach of the new Government, after discussions with everybody who supported the Government, has been that there must be a major new housing programme and it must be given priority. That was published by the Minister for Housing, Planning, Community and Local Government in July. Much of the supply side measures that members have advocated are in that. Direct supply side measures are in that programme. What we are doing here is we are taking out one small segment of the building and development sector where there is a particular problem with first-time buyer's getting deposits for mortgages. We are addressing that singularly in this particular scheme. We are not saying it is a cure-all for the sector. It is anything but. One could go through all the other problems in the sector, for example, the release of land onto the market, although there is some release of land happening now. However, in respect of the kind of use it or lose it provisions we want to put into the tax code or, to be more precise, use it or we will tax it provisions, I shared previously with members, and I am sure the Minister, Deputy Coveney, did so as well, the Attorney General's advice that due notice had to be given before a tax can be imposed on unused land or else the legislation would be deemed unconstitutional. The former Tánaiste knows quite well that the previous Government decided on doing that and it is going to come into effect in the form of a heavy tax on unused land from 2018. I can check the date for members but that is in place.

There is a lot of work done on the cost of building houses. Deputy Doherty's idea is that we should address the cost of houses and reduce the cost. There are two things I would like to say about that. First, policy is moving in the opposite direction because of the climate change agenda and because of the increase in building standards in houses. The regulations promulgated some years ago by the former Department of the Environment, Community and Local Government on better quality houses after the various scandals we had on defective builds and inadequate regulation is putting about €50,000 onto the price of a three-bedroom house. The movement is in the opposite direction. When account is taken of the climate change agenda, the need to ensure houses require very little fossil fuel heating and the very big insulation requirements under the regulations, they all have an effect on price as well. It is a very pious aspiration to say that we can solve the problem by bringing in measures that reduce the price of houses. We can do that to a certain extent, in terms of Deputy Donnelly's point about releasing more land on to the market. That would have an effect because there is no doubt that there is a premium being added on, not to the builders of houses but to the owners of the land on which the houses are built. That is a problem but that is being worked on as well and, as I say, the tax will be one such measure.

The other thing is that large tranches of land have been released now such as that at Cherrywood. Cairn Homes, the United States builders, have bought land at Cherrywood. Planning permission was granted for 11,800 units and it is developing it. That land has been released now. Ulster Bank sold its whole property portfolio in west Dublin to Cairn Homes. It has sites for several thousand houses and it is proceeding to construct.

Deputy Burton spoke about the inability of small builders. The Ireland Strategic Investment Fund has made money available for small developers through the banks. It would allow them to borrow up to 90% of the cost of a scheme and the interest rates are around 12% or maybe a bit lower. The ISIF has found that the builders are restoring their capacity to borrow again and they are not looking for the 90% but taking up between 70% and 75%. The fund is able to give them a reduced interest rate because the take-up is lower and, consequently, the risk is lower. The market is correcting itself. Intervention in the market under this scheme is a small area being addressed in the context of the generality of the scheme.

Deputy Boyd Barrett advocated very strongly for the provision of social houses through the local authorities or housing agencies. I agree with him. The commitment by the Minister with responsibility for housing is something like €5.5 billion for that purpose over the next five or six years. There is an enormous sum of money going into that and the local authorities are beginning to respond. It is a multifaceted crisis.

The other issue is about whether price will go up. One of the big problems over recent years has been that the market price for a house down the road was less than the cost of building a new house up the road. We cannot run a market that way. If it costs a person €250,000 to build a three-bedroom house and one can buy the equivalent house on the other side of the street for €200,000, who is going to build? The market was virtually closed after the crisis because house prices collapsed to the point where they were well below their replacement cost, especially starter homes, three and four-bedroom semi-detached houses and four-bedroom detached houses in typical housing estates where most people start their lives. These are the facts and they are all being addressed now. This is one part of it.

A couple of issues arose. Deputy Burton spoke about the cost of housing and agreed with me about the lack of starter homes. Deputy Doherty spoke about the statistics for mortgages and the average being below 80%, which is where we pitched this Bill first until we got the information from the Central Bank and then took it down to 70%. The reason for that is not because people do not have a problem in raising mortgages. The principal reason for that is their well-off parents who are putting up the cash. We all know that in our constituencies. The parents are chipping in for the deposits. The people who are really caught are the people who do not have parents with money. They have to try to put it together themselves and the two people are working. In the case of a young couple who go out to work every morning and pay €1,500 a month in rent, as quoted by Deputy Burton, how will they put €20,000 together? The effect of this measure is that they will only have to put €10,000 together. The benefit of the rent that they are paying is not being taken into account by the Central Bank and the Central Bank will not take it into account under the prudential rules. The lenders take it into account, however, because what the lenders or whoever is giving out the mortgage are measuring is the capacity to pay. When they are measuring the capacity to pay, one of the first questions is what a person is paying in rent and how long he or she has been paying it. If the reply is €1,500 a month for the past four years, that shows that person can afford a mortgage that costs €1,200 a month. That is the way it works but the Central Bank is not going to move position on giving allowances for rent because that allowance is being given by the mortgage provider.

The Central Bank is looking at the prudential rules. It is not going to abolish them or anything but it will move on them at the end of this month. It is taking seriously the submissions made by the parties in this House and by Members of this House who made individual submissions. The bank wants to avoid a situation where people borrow more than they can afford to service and we have another crash in the next downturn and a whole lot of people facing the threat of their houses being taken from them because they cannot afford their mortgage and so on. I support the prudential rules, but they were introduced in a form that can now be nuanced. Now that the experience is in place they can be adjusted and targeted a little better, and that will be done. However, we cannot get away from the fact that many young couples at present cannot put a deposit together. The Deputy asked if alternatives were considered. They were. We considered a grant scheme. For all my life up to ten or 15 years ago there were grants available. There were two grants when I bought a house, one from the local authority and a national grant under certain circumstances. One could put the two together. They were abolished at some stage on the grounds that they were going into the builder's pocket. This time we directed the provision to the purchaser, not the builder. That is the reason it is on the demand side, not the supply side. We could have put it on the supply side if we gave the money to the builder, but that would not have worked. It would have gone straight onto the price or into profit.

We could have done it through a grant system. We examined it and I discussed it with officials in the Department of Finance. If we did it by way of a grant of, for example, €10,000 or €12,000 per three-bedroom house, the Department with responsibility for the environment would have had to be geared up to administer it. With all due respect to that Department, it is fairly heavy on staff demands when it comes to administering schemes. Then, every local authority would have matched it and it would have been necessary to have some type of inspection system for every house. We were able to deliver what we discussed previously, the help to buy scheme and home improvements, through the Revenue Commissioners more or less online. The applicant registers online and the builder registers online. Nobody is in the black economy and it is done by means of tax rebate. That does not mean that nobody administers it and it is done automatically, but the Revenue Commissioners assure me that they can handle the scheme with their current cohort of staff and without the additional cost of gearing up the Department of Communications, Climate Action and Environment and the local authorities. It goes straight to the purchaser and gives them the opportunity to use their extra capacity.

Finally, there is a misunderstanding about what demand is. Demand is not a couple of hundred thousand people who would like to have a house. That is social demand, not economic demand.

Deputy Michael D'Arcy took the Chair.

Deputy Richard Boyd Barrett: That is the problem.

Deputy Michael Noonan: Economic demand is people who have money to buy. I am trying to turn putative demand into actual financial demand, and that will drive supply. The financial demand is being driven by giving people the wherewithal to put the deposit together. I hear anecdotally, although I cannot prove it, that it is beginning to move already. Planning permission is being sought for extra houses and sites are being opened that were not opened even at the end of the summer, particularly in Dublin. The problem arises around the country as well. We will tease it out further when discussing amendments and so forth. Self-builds in rural areas are a different matter. People still have the financial problem and they still have to finance the houses, but the triggers for getting the money will have to be modulated differently. Not everybody who builds a one-off house in rural Ireland hires a contractor. Many houses in rural areas are built by direct labour. Direct labour works. It will apply to those houses as well.

I believe the housing market is correcting. This year 16,000 houses might be built and next year it will be 20,000. The target, if one were to flat-line it, is 25,000 per year but obviously we will have to go beyond that to make up for the under-achievement over the last number of years. The market is correcting. It is not a desperate case, but I believe this scheme is worth trying. I am not saying there will not be some dead weight in it. There is dead weight in most tax schemes, but we try to keep the dead weight to a minimum and hope we get the maximum effect. I believe we will house many young couples through this.

That is my case and I would like to have the members' support.

Deputy Pearse Doherty: This is not a good idea. I do not wish to rehash the points I made earlier. First, the Minister should carry out the assessment beforehand. There is no reason for not carrying it out. We are now going on a hunch or a feeling and what the CIF is telling us. That is not good enough. Second, I accept that the Minister must take risks and see how things work, but this is a risk without any analysis carried out. The evidence points to the fact that there will be house price increases as a result of this. That is definitely not the scenario we wish to have. We must try to suppress house prices increasing A number of years ago, somebody in a very senior position in a body responsible for the sale of houses - auctioneers or a body of that nature - appeared before the finance committee and told us that once many of the residual properties were sold we would begin to see an increase in house prices. The point made to the committee was that it was possible to purchase houses on the market for prices that would not cover the cost of building them. We all knew where they were. Apartments were being sold for €50,000. People were in serious distress, the banks took ownership and the properties were sold. The point is that once that started to disappear we were told house prices would start to increase, and that is what happened. House prices have increased incrementally over the last number of months.

When representatives of the Central Bank under the previous Governor appeared before the finance committee and, indeed, in the written documentation provided to the committee, on the need to introduce the macroprudential rules, one of their arguments was that if house prices were not curtailed they would be out of reach and people would be forced to borrow substantial amounts of money. One of the reasons for the introduction of those rules was to try to suppress house prices. I realise the Minister knows all of this, but I say it to make the argument that the acceptance that this scheme may lead to house price increases and that this is somehow acceptable is simply not good enough.

I refer the Minister to the statistics. In the period since last March there has been an increase in the number of mortgage draw-downs or people applying for mortgages from the financial institutions. Young couples are looking at the prices and wondering when is the right time to get into the market. They were seeing the prices continue to drop but now they are starting to increase, so they decide they must get on the ladder and get into the market now. That is what is happening. There is a build-up in the number of people who want to purchase houses and that is starting to move at present.

My concern, aside from the fact that this will lead to price increases and is targeted at the wrong end of the spectrum, is that the statistics from Banking and Payments Federation Ireland show that in September 2016 there were 1,605 first-time buyer mortgages approved by the institutions. The total number of mortgages approved that month was 3,399. It was the same the previous month and similar in the preceding month. There is a steady pattern. The number has been increasing incrementally each month but the figure is generally approximately 3,400 mortgages approved, with 1,600 of them for first-time buyers. Let us say that all of those first-time buyers bought new properties, which means they would all be eligible for this scheme, and that they bought the new properties for €400,000. That would mean the 1,605 first-time buyers whose mortgages are approved every month can get a tax rebate up to a maximum of €20,000. Do the sums. That would cost the State €32.1 million per month. Extending that over the year, it would cost the State €385 million. That is the potential amount of money. The Minister has given us his estimate of what it will cost but if not one additional person was to draw down a mortgage and if the current trend was maintained over a period of years, first-time buyer approvals in a calendar year would be 19,260 mortgages. The reason I am pointing that out is to show that there is demand there. The figures do not lie.

Deputy Michael Noonan: The Deputy is including second-hand houses in his figures.

Deputy Pearse Doherty: I know I am including second-hand houses. I am talking about the demand that is out there. I have stripped away first-time buyers. If we look at the overall number of mortgages that are being approved every month, it is 3,400. That is about 40,788 per year. In terms of first-time buyers, there will be about 19,000 mortgage approvals if the current trend stays static. Without this idea the Minister has, there would be a total of about 19,000 approvals.

Deputy Michael Noonan: That is not possible.

Deputy Pearse Doherty: Some of those people will buy second-hand homes and some of them will buy new homes. Some of the other 20,000 people, who are movers and second-time buyers, will buy new homes as well. The point I am making is that when there are 40,000 approvals of mortgages and we are building 16,000 houses or 20,000 houses next year, the problem is not in demand, it is in supply. I do not know what I need to do to convince the Minister that this is the problem. The Minister makes the argument that the issue is that people cannot get mortgages, or the deposit together for a mortgage, despite the fact that the Central Bank has told the Minister that the average loan-to-value ratio is less than what the Central Bank has said is required to meet its rules. The average loan-to-value is below 80%. The Central Bank's rules are all above 80%. I appreciate the difficulties as I know individuals who have to save. It is very difficult to get that deposit together. However, the problem is that the Minister is using a very blunt instrument which is targeting a large cohort of people. In the morning, those 19,000 first-time buyers could potentially decide to buy new houses. If they buy new houses and if they cost €400,000 each, the Minister will have to write a cheque to them to the value of €385 million per year. That is what he is saying.

Deputy Michael Noonan: If the Deputy's arguments are correct and there is such a money demand out there for new houses, why are new houses not being built-----

Deputy Pearse Doherty: These are not my arguments. They are from the Banking and Payments Federation's reports.

Deputy Michael Noonan: -----in the private sector?

Deputy Pearse Doherty: I will tell the Minister where they are.

Deputy Michael Noonan: The Deputy is misinterpreting the figures.

Deputy Pearse Doherty: No, I am not misinterpreting the figures.

Acting Chairman (Deputy Michael D'Arcy): Through the Chair please, Deputies. I ask members to be shorter in their contributions, please.

Deputy Pearse Doherty: I appreciate that.

Acting Chairman (Deputy Michael D'Arcy): We want to get out of here before Christmas 2016. I am not being funny. We are on section 16.

Deputy Pearse Doherty: I am not misinterpreting the figures. What I am telling the Minister comes from the Banking and Payments Federation's reports. They are telling us that there were 3,399 mortgage approvals in September 2016. Of those, 1,605 were for first-time buyers. If we measured that out over a 12-month period, we would see a figure for first-time buyers' mortgage approvals of 19,260. There would be in excess of another 20,000 approvals made up of remortgages, top-ups and so on. The issue-----

Acting Chairman (Deputy Michael D'Arcy): I ask the Deputy to finish up. He has had a good innings. Deputy Donnelly is coming in-----

Deputy Pearse Doherty: That is fine, but I am in possession of-----

Deputy Michael Noonan: I will provide Deputy Doherty with one figure before he finishes. The current trend of first-time buyers buying new houses, according to Revenue, is 150 a month.

Deputy Richard Boyd Barrett: Could the Minister say that again?

Deputy Michael Noonan: The current trend of first-time buyers buying new houses is 150 a month. There is plenty of headroom in this game within the money provided-----

Deputy Pearse Doherty: I agree 100%-----

Deputy Michael Noonan: -----of €50 million. So the Deputy's figures of hundreds of millions are off the Richter scale.

Deputy Pearse Doherty: No, but they could be off the Richter scale if we have to pay the bill. The reality is that we have the Central Bank's figures.

Deputy Michael Noonan: That is not the point. The Deputy is statistically incorrect.

Deputy Pearse Doherty: No, I am not. The point is-----

Acting Chairman (Deputy Michael D'Arcy): I ask the Minister and the Deputy to address the committee through the Chair.

Deputy Pearse Doherty: I will, if I can finish without interruption. The point I am making is that there are 1,605 first-time buyers getting mortgage approvals every single month. I made the point earlier on that they are not buying new homes. The reality is that they are buying second-hand homes. The Central Bank provided figures from last year that showed that first-time buyers only bought 756 homes. I know that. However, the Minister is now introducing an incentive for them to buy new homes. The point I am making is that if those 19,000 decide to follow the Minister's lead, the cost to the State will be €385 million. Outside the cost to the State of this, the Banking and Payments Federation are telling us is that there are 3,400 individuals getting mortgage approval every single month and 1,600 of them are first-time buyers. That blows a massive hole in the Minister's argument that the people out there do not have a capacity to get a mortgage. They do have that capacity and the number of mortgages that are being approved is in excess of the stock that is available to buy.

I will finish on this. The Minister asked me why there are not any new houses being built. The reason is because of the trend that house prices will continue to rise. Developers are waiting. Whether there is an argument of legitimacy here or not, developers are waiting for house prices to rise further in order that their profit margins increase. We have heard this from the likes of NAMA, for example, which told us that it is only now appropriate for it to start building because house prices have risen to a certain level. Developers are waiting for house prices to rise in order that it becomes profitable enough for them to start building. That is the argument I put to the Minister. Let us look at the issue from the other side of it, in terms of the cost of building a house. It is a recommendation that came from the housing committee that the Government has not acted upon. It was universally agreed by all political parties that the Minister should bring forward a report on the cost of building a house in this State. The figures out there are different. There are different figures from the housing associations, the Housing Agency, Construction Industry Federation, CIF, and all the rest.

Deputy Stephen S. Donnelly: The Minister has put forward a very reasonable argument. I agree with some of it and disagree with some of it. That is fine. I believe it is reasonable, I just disagree with the price aspect of it. The Minister's position is clearly a well-considered position and an intervention targeted at a group that is trapped. They are trapped by the 3.5 times household income ratio that might allow them to buy a house, but nobody who is paying €1,400 or €1,500 in rent every month is able to save €20,000 to €40,000. This is a targeted intervention to help those people. I will repeat the last question I asked the Minister. Would he consider an amendment on Report Stage applying exactly the same logic to the negative equity generation? Everything I heard him say applies to that generation as well. This is a group who have already paid a huge amount of property tax. They have all paid the high stamp duties, the property tax and the second home tax, if they were renting and renting and so forth. They are trapped in the same way the Minister described first-time buyers as being trapped. Essentially, they are trapped by a new Central Bank rule. It is a work-around or a policy intervention to deal with what is hopefully an unintended consequence of the deposit rule of the Central Bank.

I will give three examples I have dealt with this weekend. One family has left the country. They have moved to the Middle East to try to earn some money tax-free and save, not even for a deposit, but to try to pay down some of the negative equity, and maybe in time, to own a house. The second couple have two young boys. They are renting. They bought a one-bedroom apartment and have now moved out of it. They are in a two-bedroom semi-detached house with two children. They are trapped because they are paying €1,500 per month or whatever is the inflated rent. They are also paying the second-highest child care costs in the world. They both work very hard and they are trapped for exactly the reason the Minister said the first-time buyers are trapped. They are never going to be able to save €30,000 or €40,000 in order to buy a home. They are trapped. These are all couples I have met in the past few days. The third couple bought a tiny one-bedroom apartment in Dublin. They also have two children. They cannot move out because they have calculated that they would be taxed on the rental income on the apartment in Dublin were they to move out to Wicklow and rent a two-bedroom house. Their tax bill would go up by about €5,000. They had a choice. They could either do it and hope that they never get caught by Revenue or not do it and be tax compliant. That is what they have decided to do.

I ask the Minister to consider for Report Stage that if an individual or a couple can prove that they are in negative equity or at zero equity, which is relatively easy to prove, they may also avail of the scheme. The Minister was talking about people who are trying to buy a home, cannot save the deposit but do qualify on the income multiple. If the Minister wants to apply this as a targeted intervention, I ask him to do it for those people who are equally trapped, or in most cases more trapped, than the first-time buyers he is trying to help.

Deputy Michael Noonan: The scheme is designed for first-time buyers of new houses or new apartments. By definition, anybody in negative equity has a new house or apartment already. The Deputy is asking me to use the scheme for the purchasers of second homes. I do not think this is the scheme for that, although I appreciate the problem the Deputy has identified. We have had some discussions with the Central Bank about this and it has changed the prudential rules. In the context of financial regulations the Central Bank has a prudential and consumer protection remit through the provision of new lending to borrowers in negative equity. The programme for Government included a commitment to support the Central Bank's regulation of negative equity mortgage products that allow home owners to move house while still in negative equity. In practice, the Central Bank has removed some of the conditions from the prudential rules for persons in negative equity to allow them to borrow in excess of the guidelines. It is in that space that assistance can be given to persons in negative equity to allow them to purchase. We can discuss that further but the Central Bank has taken the first steps to doing it. It might be a better avenue than trying to adapt this particular scheme, which is for first-time buyers of new homes, to second-time buyers who have negative equity difficulties, which they undoubtedly have.

Deputy Stephen S. Donnelly: Could a note be sent to me from the Department about what the Central Bank has done?

Deputy Michael Noonan: Yes.

Deputy Stephen S. Donnelly: In the context of the Minister's argument for first-time buyers, can he address the deposit issue? The income multiple is not the issue - it is the deposit.

Deputy Michael Noonan: I will think about it.

Acting Chairman (Deputy Michael D'Arcy): I am not certain that the income multiple is not the issue. The multiple is a major problem for people. The Minister said that in some cases parents and family members were helping people with their deposits. They get over the deposit hurdle but then run into another hurdle and there is no way around the ratios that are applied there. There are two major hurdles.

Deputy Richard Boyd Barrett: I am surprised by what Deputy Doherty said, although I take his figures seriously on effective demand in the figures for people getting mortgage approval. I would have thought there was a huge problem with effective demand, not just in the ability to gather together a deposit but with regard to the multiples. The evidence for this was very apparent to me when I went to the teachers' protest. It would be the same on the nurses' protest. Their income is not enough for them to even dream of buying a house or renting. A person came to me the other day who is a tenured lecturer in a university. The person broke down in front of me because she believes she may be homeless in a couple of months. She has children but is separated. She lives on a tenured university salary in south Dublin but rents are more than half her net salary. It is unsustainable but she will not be able to afford to buy on the Cherrywood development either. She cannot afford the rents and will not be able to buy unless prices, either for renting or buying, are brought significantly down. I do not see how anything the Minister is talking about will achieve that. A hard lid is being kept on salaries and incomes and any increases are not much against a background in which rents and property prices are going through the roof. All the signs are that this measure is actually already putting up prices further. Unless we get prices to affordable levels by controlling prices and controlling rents I do not see how this problem is going to be solved.

Cherrywood could help solve the problem in south Dublin because it is a big site with capacity for 11,000 homes. However, if the vulture fund dictates the prices of most of the properties, and maybe even the 10% to which reference was made, which it will probably lease back to the local authority rather than the authority or an approved housing body taking ownership of it, it will control the speed at which it is all built. It will decide whether a property is for purchase or for rent and will do so on the basis of whatever gives the best price for it. I do not see how it helps. It may make the situation worse but it certainly will not address the problem of the woman who came to see me. I was shocked in that if this could happen to somebody on €70,000 a year, what is the situation for others? In fact, I know what it is because such people walk through the door of my clinic every single week. It is totally impossible for them. Anybody who finds themselves without accommodation in the greater Dún Laoghaire-south Dublin area are in the housing crisis. They are in an emergency situation.

One does not have to be a radical to see things this way. In the 1970s there was the Kenny report, which concluded that we had to control all building land. We had to control prices and supply or we would not meet social need and social demand. Is that not now obviously the case? If the 10% that has been set aside in the Cherrywood development was 50%, would that not bring down the price of rents and so on? Would it not be even better if it was 100%? We would then control the prices. What guarantee can the Minister give that the vulture fund to which he sold the stuff will not just charge whatever it likes and price most people out of the market? I do not think the Minister can give any such guarantee. We have recent experience of this because, before 2008 when there was a large amount of supply, prices were unaffordable and the only way people could afford a house was to take out an unsustainable loan. The only way to resolve the problem of people not having enough income to pay inflated prices is to borrow money, and we know how dangerous that is. People would be borrowing money they could not afford to pay back.

Deputy Michael Noonan: What is the Deputy's solution?

Deputy Richard Boyd Barrett: My solution is to control prices. The State has to deliver large-scale rental or affordable housing through local authorities, mortgage schemes run by the State and so on. The State should control at least a significant amount of the housing stock to provide for people who cannot afford, on their current salaries, what the market is going to charge them.

Deputy Michael Noonan: That is being done. There is a big social housing programme being rolled out.

Deputy Richard Boyd Barrett: I just gave the example of Cherrywood. It is not going to happen in Cherrywood.

Deputy Michael Noonan: There must be a private housing programme as well. The bit we are doing here is on private housing for first-time buyers. A whole programme has been rolled out by the Minister, Deputy Coveney, relating to social housing. This is about affordable housing for young couples.

Deputy Richard Boyd Barrett: I just want to correct one part of that.

Deputy Michael Noonan: The Cherrywood example is not a vulture fund. Developers in Cherrywood have the biggest construction developing company in the United States of America. They are not vulture fund people at all.

Deputy Richard Boyd Barrett: We have no control over what they charge.

Deputy Michael Noonan: They develop vast tracts of land and sublet sections of it to smaller builders. They have a good working model. Of course, they work for a profit but they are not ripping people off or anything like that. They will contribute to housing supply in south Dublin.

Deputy Richard Boyd Barrett: I will state the very obvious point. Even with the 10% being spoken about by the Minister, they will build it. It will be sold or leased back to local authorities at a discount on the market price. We do not even know what a reasonable profit is in the legislation, and that is how it is defined. It will be relative to the market prices in south Dublin, which are off the scale. Even the social element will cost the State an absolute fortune as it will be built by the people being described by the Minister.

Deputy Michael Noonan: At the risk of causing the Deputy further concern, the biggest risk I see to house prices is 9,000 or 10,000 very well-paid people from the City of London relocating to Dublin with money to buy second-hand homes. That is the space the Deputy should look at.

Deputy Richard Boyd Barrett: It is very unlikely.

Acting Chairman (Deputy Michael D'Arcy): I wish to move on, please.

Deputy Pearse Doherty: The Minister did not respond to any of the comments I made. The key point I was trying to make is that if the current cohort of individuals who are receiving mortgage approvals and defined as first-time buyers purchase new homes, there will be 19,260 new homes bought in a calendar year by first-time buyers-----

Deputy Michael Noonan: The information I have from the Revenue Commissioners is that mortgage sanctions to first-time buyers are running at 150 per month, amounting to 1,800 and not 18,000.

Deputy Pearse Doherty: Will the Minister repeat that? Is it mortgage sanctions to first-time buyers?

Deputy Michael Noonan: It is for new builds. I will read the note in case there was misunderstanding. The current trend of first-time buyers buying new houses is 150 per month.

Deputy Pearse Doherty: Yes, they are buying new houses.

Acting Chairman (Deputy Michael D'Arcy): To clarify, it is 150 new first-time buyers purchasing new builds. That is 1,800.

Deputy Michael Noonan: There is a very small number using cash and most are mortgage-driven. The figure is 1,800. It is not 18,000 or 19,000.

Deputy Pearse Doherty: That is the current scenario or the historic position. The point I make is the other portion of the 1,600 getting mortgage approvals who are buying second-hand homes. We can accept that. The Minister has introduced a €20,000 tax incentive, which is an enticement to purchase new builds. It is what the measure is aimed at, thus increasing supply at that end. The point I make is that if a significant cohort follow that direction, or if all of them did so, it would cost the State €385 million per year. I am not suggesting they will all buy new builds but there is now an incentive of €20,000 for that.

The figures referred to by the Minister indicate the value is in the second property market. We all know that and I mentioned earlier that although I do not know the date of the figures stated by the Minister, one can see with mortgage approvals and drawdowns that from March this year, there has been a significant increase in those numbers. The value may no longer be in the second home market but rather the new property market because of this incentive. How did the Department arrive at the figure of €40 million or €50 million, given that if the number of first-time buyers getting mortgage approval bought new houses in one month, it would cost €32 million if they were valued at €400,000 each?

Deputy Michael Noonan: We arrived at it as follows. Taking the sentence I read to the Deputy, the current trend of first-time buyers buying new houses is approximately 150 per month. I regard that as dead weight on the scheme as they are buying them anyway. That does not have an impact on the scheme being designed to drive supply. In that case we are looking, effectively, at no or very few new houses being built in the category we are aiming at, which is starter homes. We look at planning permission and the capacity of the industry, along with what is likely to happen, and the Revenue Commissioners have come up with a figure. The backdating to 19 July will cost €10 million and going forward from the date of implementation in the budget, the cost will be €40 million for the remainder of the year. I would regard it as a great success if it goes beyond that. This is to drive supply so unless the take-up-----

Acting Chairman (Deputy Michael D'Arcy): The Minister has answered the question.

Deputy Pearse Doherty: There is another point as, in fairness, he answered Deputy Donnelly and the conversation went on. When the Central Bank introduced the macroprudential rules, it is indicated in the question-and-answer document it released to the public that one of the reasons for the introduction of the rules, including the loan-to-value ratio, was that it wanted to ensure we did not have a spiral in house prices. There are only two rules dealing with loan-to-value and loan-to-income ratios. The Minister has taken the rug from under the Central Bank, undermining the loan-to-value rules because-----

Deputy Michael Noonan: The first purpose-----

Acting Chairman (Deputy Michael D'Arcy): The Minister should allow the Deputy to finish.

Deputy Michael Noonan: I understand the question and want to answer it. The first purpose of the macroprudential rules introduced by the Central Bank was to ensure that individuals did not repeat the cycle and get into unaffordable debt by incurring mortgages they could not service. Part of this was the idea that people are more likely to take on mortgages they cannot afford if house prices increase beyond the capacity to service the mortgage that would buy such houses. That is where price enters into it. It was not the primary purpose of the rules.

This scheme does not run against or circumvent the macroprudential rules but rather it assists them. If somebody can get assistance with the deposit, they would not do what many young couples are doing, which is saving half the deposit and trying to borrow the other half from the credit union or another source. It reduces the amount of indebtedness of couples who are putting a deposit together in some circumstances. As a consequence, it makes their mortgages more affordable and they are less likely to get into subsequent trouble. The Central Bank realises this and that is why I did not have a difficulty with the Governor of the Central Bank in agreeing that this was a good scheme for putting a deposit together. It helps the rules rather than running counter to them.

Deputy Pearse Doherty: To be accurate, the Minister did not show this scheme to the Governor of the Central Bank. He informed us he was not consulted on the substance of the scheme, bar-----

Deputy Michael Noonan: No, I do not want-----

Deputy Pearse Doherty: It has been a trend that the Minister interrupts me when I am trying to make a comment.

Acting Chairman (Deputy Michael D'Arcy): Finish the point, please.

Deputy Pearse Doherty: The Governor of the Central Bank has been clear to this committee and me that he was consulted only on the issue of whether this grant or tax rebate would be included in calculating the loan-to-value ratio. He was not consulted on other matters and we know the outflow from that, which is that the loan-to-value ratio included in the original scheme, which was 80%, is now 70%. It is important to put that on the record as the Minister has given the impression on a number of occasions that the Central Bank is happy with this.

Deputy Michael Noonan: No. The Deputy is always and in a very emphatic manner effectively making allegations that are incorrect. The purpose and general design of the scheme was discussed by me, personally, with the Governor of the Central Bank. We did not get into the last detail of it. What happened in putting in the 80% figure as opposed to 70% is that on the advice of the Central Bank, the scope of the scheme has been widened and not reduced.

Acting Chairman (Deputy Michael D'Arcy): I ask the Minister to move amendment No. 16.

Deputy Michael Noonan: I move amendment No. 16:

In page 9, to delete lines 24 to 31 and substitute the following:

" 'qualifying residence' means—

(a) a new building which was not, at any time, used, or suitable for use, as a dwelling, or

(b) a building which was not, at any time, in whole or in part, used, or suitable for use, as a dwelling and which has been converted for use as a dwelling,

and—

(i) which is occupied as the sole or main residence of a first-time purchaser,

(ii) in respect of which the construction work is subject to the rate of tax specified in section 46(1)(c) of the Value-Added Tax Consolidation Act 2010, and

(iii) where the purchase value is not greater than—

(I) where in the period commencing on 19 July 2016 and ending on 31 December 2016, a contract referred to in subsection (3)(a) is entered into between a claimant and a qualifying contractor or the first tranche of a qualifying loan referred to in subsection (3)(b) is drawn down by a claimant, €600,000, or

(II) in all other cases, €500,000;".

I apologise for delaying proceedings. The amendment introduces two important changes to the definition of "qualifying residence". The first change will ensure that the conversion of buildings which were not previously used as a dwelling will be accommodated under the help-to-buy scheme. Such new living accommodation would constitute additional supply, in a similar manner to the more traditional new builds envisaged for the scheme. For example, it is not uncommon for older industrial buildings such as warehouses to be converted into apartments and the legislation, as published, would not have permitted such conversions to qualify for the help-to-buy scheme.

The second change within the definition of "qualifying residence" is in response to calls to reduce the upper price or value threshold that can qualify for tax relief under the scheme. Having listened carefully to the comments of my parliamentary colleagues on the scheme, I am proposing a change such that, from 1 January 2017, the upper limit for the purposes of the scheme will be reduced to €500,000. Given the legitimate expectations of those who may have made purchasing decisions or entered into commitments to self-build following the announcement of the scheme in the budget, I propose to allow the original cap of €600,000, as announced, to remain applicable in respect of relevant qualifying homes up to 31 December 2016.

I will explain the reasons I do not propose to reduce the upper limit for qualifying under the scheme from €600,000 to €400,000. If I were to reduce the cap to €400,000, a person who bought a house for €400,000 would receive €20,000, whereas a person who bought a house for €410,000 would not receive any benefit under the scheme. This would create a cliff effect above the €400,000 cap. It was necessary, therefore, to have some margin in place above €400,000 to make the scheme operable. One can argue about how far would one go in this respect.

A second issue also arises. When grants applied and a limit was imposed on the price of houses to which a grant applied, a lump of money was paid under the table when the limit was exceeded. If a cut-off point is applied close to the figure of €400,000, people would make up the difference in cash and the real price of the house could be €500,000. This would incentivise a black economy in house prices. Nobody will receive 10% of €500,000. Instead, a person paying €500,000 for a house will receive 10% of €400,000, provided the price paid for the house is less than €500,000. I took advice on this matter from colleagues more than from anybody in the trade. Many of my colleagues believed that a €600,000 ceiling was too high. That is fair enough and we have proposed to reduce it to €600,000. Nevertheless, where people have entered into commitments under the understanding that the ceiling would be €600,000, this must be honoured. As a result, I am proposing that the change to €500,000 will take effect on 1 January next.

Acting Chairman (Deputy Michael D'Arcy): I will only permit comments on the amendment. A general conversation will not be allowed.

Deputy Pearse Doherty: The Minister argues that the scheme is for starter homes. Is it his view that starter homes cost up to €500,000?

Deputy Michael Noonan: Yes, they can cost €500,000. If one looks at what is available in Dublin, it is very hard to get anything for less than €400,000.

Deputy Pearse Doherty: The Minister is not legislating for Dublin.

Deputy Michael Noonan: I presume Deputy Doherty has seen statements from Deputy Michael McGrath's colleagues in Dublin constituencies who argued that we should leave the upper limit at €600,000 to reflect the market for starter homes in their constituencies.

Deputy Pearse Doherty: Under the macro-prudential rules, borrowers must have a minimum deposit of 10% when buying houses priced at €220,000 or less and a higher rate applies when the prices exceeds €220,000. These rules were introduced to try to suppress house prices, which is one of the Central Bank's objectives.

Deputy Michael Noonan: No, the primary reason for the macro-prudential rules was to try to ensure people who raised mortgages could afford to service them and did not get into the difficulty we have all seen occur in the past eight years. Beyond the price issue, a consequence of this was that if prices increased too much, the risk of not being able to service the mortgage also increased.

Deputy Pearse Doherty: The Minister is wrong and in that regard I refer to him the Central Bank's website. It refers to the emergence of a credit fuelled property bubble, trying to control house prices, etc. This is clearly spelled out. Suppressing house prices was not a consequence of the rules but one of their objectives.

On the amendment, this change is obviously an example of new politics. The Fine Gael Party wanted a ceiling of €600,000, Fianna Fáil wanted it set at €400,000 and a figure of €500,000 has emerged in the Bill. I note Deputy Michael McGrath acknowledged that this was the wrong proposal. It is important to place on record that the only proposal from Fianna Fáil, other than its call for an independent review, was to widen the scheme.

On the new €500,000 limit provided for in the amendment, an individual who purchases a house in Dublin or elsewhere at a cost of €500,000 would be required under the macro-prudential rules on loan-to-value ratio to have a deposit of €78,000. However, because the scheme permits a loan-to-value ratio of 70%, the purchaser will already have a deposit of €150,000 in his or her back pocket or bank account. If somebody has already acquired twice what is required under the macro-prudential rules and has been able to save €158,000, from whatever source, why should citizens provide him or her with a tax rebate of €20,000 to buy a property worth €500,000?

Deputy Michael Noonan: Cut-off points are necessary in all schemes. I have explained the reason the cut-off point could not be pitched at €400,000. Given current house prices in Dublin, €400,000 was a reasonable point at which to draw the line and there had to be some headroom allowed above this threshold to avoid a cliff effect and a black economy effect. That is the reason.

Deputy Pearse Doherty: The Minister’s argument does not stack up. While I agree with his point on the black economy, one could argue that the scheme will encourage a black economy in certain areas where property prices exceed the new threshold. One could also argue that people are being incentivised to borrow more money. The key issue is that the ostensible purpose of the scheme is to increase the supply of starter homes. The Minister referred earlier to three-bedroom semi-detached starter homes costing €300,000. Now, in trying to justify his arrangement with Fianna Fáil, he is stating that starter homes in Dublin cost €500,000.

Deputy Michael Noonan: No, I am not. There is a range of markets, with prices varying from location to location.

Deputy Pearse Doherty: If I may, I will finish the point. What the Minister is doing in legislation is basically setting a ceiling for starter home prices across the State by allowing people to benefit by up to €20,000 when buying a property costing below the ceiling. This means prices can rise to the level of the ceiling, which is wrong because it will encourage a faster rate of increase in house prices.

Deputy Michael Noonan: If one looks at this through the other side of the telescope, one can apply the same argument to say I am introducing a cap which will reduce prices to this level.

Deputy Michael McGrath: I wish to respond to some of the remarks made by Deputy Doherty. Fianna Fáil supports the amendment, which is an improvement on the current position. The property market in Dublin is crazy, with people buying homes of less than 1,500 sq. ft. at prices of up to €500,000, or higher in some cases depending on location. The position is different in Cork, Donegal and other areas outside Dublin but that is the reality of the market in the capital. For this reason, the focus must be on affordability issues and supply. We have tabled an amendment to address the cost of new homes. Deputy Doherty is correct that the Joint Committee on Housing, Planning and Local Government made a recommendation on that issue, which I will discuss when we reach the relevant amendment.

On the suggestion that we are seeking to expand the scheme, unfortunately the two key amendments we have tabled on the scheme have been ruled out order, although I intend to discuss them when we debate the section. These amendments relate to what I regard as an inherent unfairness, depending on when a contract is signed and a mortgage drawn down. Deputy Doherty can characterise that as expanding the scheme, but I suggest that bringing the cap down to a lower level is restricting the scheme. It is not being restricted as far as the Deputy would like, but I argue that the proposals relating to the contract issue and the drawdown of mortgages are quite specific and would cover a relatively small number of cases. I will address them when I talk about the section.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 17:

> In page 9, between lines 31 and 32, to insert the following:
>
> " 'relevant tax year' means a year of assessment, within the 4 tax years immediately preceding the year in which an application is made under this section, in respect of which a claim for an appropriate payment, or part of such appropriate payment, is made by an individual;".

Acting Chairman (Deputy Michael D'Arcy): Is the amendment agreed?

Deputy Pearse Doherty: Has it been discussed already?

Acting Chairman (Deputy Michael D'Arcy): Yes, it was discussed with amendment No. 13. We need to move on to amendment No. 18, which was also discussed with amendment No. 13.

Deputy Pearse Doherty: I ask the Chair to bear with me. We are going to end up discussing the subject matters of these amendments when we consider the section as a whole.

Acting Chairman (Deputy Michael D'Arcy): Yes. I have to move on.

Deputy Pearse Doherty: It was not clear to me that all of this was being discussed together. I apologise for that.

Acting Chairman (Deputy Michael D'Arcy): That is fine.

Deputy Pearse Doherty: We can either agree them now or-----

Acting Chairman (Deputy Michael D'Arcy): Okay. We will come back and have a general discussion on the section.

Deputy Pearse Doherty: -----we can oppose them all now by calling a vote on each one before discussing them again when we are considering the section.

Acting Chairman (Deputy Michael D'Arcy): Okay. I am going to keep moving.

Deputy Pearse Doherty: Given the lack of clarification, I am going to have to do that. The alternative is to discuss the amendments now.

Acting Chairman (Deputy Michael D'Arcy): There will be a discussion on the section at the end.

Deputy Pearse Doherty: Yes, but I am not going to agree amendments on Committee Stage without having discussed them. I do not want to be forced into calling votes on these amendments and voting against them individually. For example, we have not been given clarification on the four-year tax-----

Acting Chairman (Deputy Michael D'Arcy): A page setting out the grouping of the amendments was provided to each Deputy.

Deputy Pearse Doherty: Yes, I understand.

Acting Chairman (Deputy Michael D'Arcy): The Deputy will have received a copy.

Deputy Pearse Doherty: I did.

Acting Chairman (Deputy Michael D'Arcy): It clearly sets out the position. That has been in front of the Deputy since the start of the day.

Deputy Pearse Doherty: That is fine. That is okay. I am just explaining. We started into a discussion on the section.

Acting Chairman (Deputy Michael D'Arcy): Yes.

Deputy Pearse Doherty: The Chair will remember that this was opposite the amendment. When that discussion closed down, it seemed that the entire discussion on this group of amendments was closed down.

Acting Chairman (Deputy Michael D'Arcy): We had a 40-minute discussion on one section.

Deputy Michael Noonan: I have speaking notes on all the amendments. I have not yet read them, but I can do so if that helps.

Deputy Pearse Doherty: Yes, with the indulgence of the Chair. I just want clarification on some of these amendments because they are quite technical.

Deputy Michael McGrath: Each amendment should be explained and discussed.

Acting Chairman (Deputy Michael D'Arcy): Okay. I ask the Minister to read his speaking note on amendment No. 17.

Deputy Michael Noonan: Amendments Nos. 17 and 23 introduce the concept of a "relevant tax year" into this section of the Bill. The reason for this is to allow first-time buyers flexibility as to the years in respect of which they can claim the rebate. As a result of this amendment, claimants will be allowed choose any or all of the tax years within the four tax years immediately preceding the year in which they make their application. Some people may have paid sufficient tax in one year or two years to qualify for the rebate. Rather than having to make the case for the four tax years, if that is not necessary, they can make it for one year, two years, three years or four years.

Deputy Pearse Doherty: Is there any provision for enabling returning emigrants, about whom we hear so much, to avail of this scheme? I understand the Government has a plan to entice 70,000 of them to return home. Given that they might not have a tax liability in the four years prior to their purchase of a new home, are any amending provisions being made to accommodate them?

Acting Chairman (Deputy Michael D'Arcy): I would like to ask the Minister about people who may previously have claimed tax credits on the basis of certain sections being available. If they have already used their tax credits for the four-year period in question, will an additional use of that tax credit be available - a double usage, in effect?

Deputy Michael Noonan: One of the conditions of the scheme is that an individual or group purchasing a house - an individual, a couple or a group of three siblings, for example - must have paid sufficient tax to the Irish Revenue Commissioners over the previous four years.

Acting Chairman (Deputy Michael D'Arcy): Okay. I thank the Minister.

Deputy Michael Noonan: Will I speak on amendments Nos. 24 and 25 or will we move on?

Acting Chairman (Deputy Michael D'Arcy): We will move on to amendment No. 18.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 18:

In page 9, after line 39, to insert the following:

" 'tax year' means a year of assessment within the meaning of the Tax Acts;".

This technical amendment is being introduced to define "tax year".

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 19:

In page 10, lines 21 and 22, to delete "proposes to construct" and substitute "offers, or proposes to offer, for sale".

This is a further technical amendment to change the language being used in the Bill. The phrase "proposes to construct" is being deleted and replaced by the phrase "offers, or proposes to offer, for sale".

Deputy Pearse Doherty: I have an issue with the Minister's suggestion that this is a technical amendment. I would argue that it is a substantive change, regardless of whether that is what was originally intended. The existing section within the legislation would mean that this would only apply in the case of a contractor who was proposing to build new-builds and thereby increase supply. This amendment will change that by including a reference to proposals to offer existing stock "for sale". Existing housing will now come under the remit of this section and will therefore be deemed as qualifying premises or residences for tax rebate purposes. If the Government was not proposing this significant change, qualifying persons would be able to get tax rebates in respect of newly-constructed houses or apartments only.

Deputy Michael Noonan: This is technical in nature. I am getting a note on it to make sure I am precise in the language I use.

Deputy Michael McGrath: Can the Minister clarify that the intention is to capture existing and new housing stock that has been built but not sold?

Deputy Michael Noonan: Yes.

Deputy Michael McGrath: The previous wording would not have captured that.

Deputy Pearse Doherty: The previous wording was about new supply. This amendment will expand the scheme to include existing houses that are likely to be sold anyway. It goes against the grain of the Minister's argument for why this is required in the first place.

Deputy Michael Noonan: Yes, but the common factor is that they would be houses that have not been lived in.

Deputy Pearse Doherty: Yes.

Deputy Michael Noonan: Supply is once they are lived in.

Acting Chairman (Deputy Michael D'Arcy): Is amendment No. 19 agreed?

Deputy Pearse Doherty: It is not agreed.

Deputy Michael Noonan: I will get a note on this. I want to make sure the correct technical note is on the record. Amendment No. 19 changes the scheme so that if rebuilding is partly constructed, it will qualify. Otherwise ghost estates, etc., would not qualify.

Acting Chairman (Deputy Michael D'Arcy): On a point of clarification, if a building has started, it qualifies.

Deputy Michael Noonan: Once it is completed, yes.

Acting Chairman (Deputy Michael D'Arcy): When it is completed, sorry. Okay.

Deputy Pearse Doherty: Can I get clarification on that? Does a fully completed building in Dublin or wherever that is not in a ghost estate and has not yet been sold qualify as a result of this section even though it would not have qualified under the existing section?

Deputy Michael Noonan: If it has never been lived in, yes.

Deputy Pearse Doherty: Okay. I think the Minister has been very selective in relation to ghost estates. It is far wider than that. It increases-----

Deputy Michael Noonan: Once it has been lived in, it is second-hand. If it has not been lived in, it increases supply of available homes.

Acting Chairman (Deputy Michael D'Arcy): Okay. I think that is quite clear.

Amendment put.

The Committee divided: Tá;, 6; Níl, 2.	
Tá;	Níl;
Burke, Peter.	Boyd Barrett, Richard.
Burton, Joan.	Doherty, Pearse.
D'Arcy, Michael.	
McGrath, Michael.	
Moynihan, Michael.	
Noonan, Michael.	

Amendment declared carried.

Deputy Michael Noonan: I move amendment No. 20:

In page 10, line 28, after "are" to insert "constructed or".

We are reaching back to the announcement on 19 July. We need the word "constructed" in there.

Deputy Pearse Doherty: It is the same issue as in the past. Those who are opposed to the scheme continue to vote to expand it.

Deputy Michael McGrath: It is being expanded for returning emigrants.

Deputy Joan Burton: Yes. Was this the one that inadvertently negatively affected some people who were involved in self-builds and had the wrong date?

Deputy Michael Noonan: No.

Amendment agreed to.

Acting Chairman (Deputy Michael D'Arcy): Amendments Nos. 21 and 22 have been ruled out of order. Deputy Michael McGrath may speak on them at the end of the section.

Amendments Nos. 21 and 22 not moved.

Deputy Michael Noonan: I move amendment No. 23:

In page 11, to delete lines 35 to 41, and in page 12, to delete line 1 and substitute the following:

"(i) in the first instance as a refund of income tax paid by the claimant in respect of the earliest relevant tax year and followed by each succeeding relevant tax year, and

(ii) thereafter as a refund of the amount of appropriate tax paid by the claimant in respect of the earliest relevant tax year and followed by each succeeding relevant tax year.".

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 24:

In page 12, to delete lines 12 to 19 and substitute the following:

"(ii) where the individual is a chargeable person within the meaning of Part 41A or, as appropriate, Part 41 for a tax year within the 4 tax years immediately preceding the year in which the application is made, he or she has complied with the requirements of that Part or, as appropriate, those Parts and has paid the amount of income tax payable and of universal social charge (within the meaning of Part 18D) which he or she is liable to pay, in respect of each such tax year,".

Amendments Nos. 24 and 25 introduce greater flexibility around the obligation on PAYE taxpayers to submit a tax return. As currently framed, all claimants would be required to submit a tax return and pay any income tax and USC payable in respect of each of the four preceding tax years, if they have not already done so. However, given that taxpayers whose income is solely taxed under PAYE are not obliged to make an annual tax return, unless required to do so by the Revenue Commissioners, I am amending the obligation on PAYE taxpayers so that they will not necessarily be required to submit a tax return for each of the four tax years preceding their application. Under these amendments, they will be required to submit a return only for the tax year or years which they consider necessary to allow them to maximise their rebate. For example, if a PAYE first-time buyer is satisfied he or she has paid sufficient tax in 2016 to get the maximum rebate of €20,000, he or she would be required to make a tax return only for 2016.

If another PAYE first-time buyer is satisfied that he or she has paid sufficient tax in 2014 and 2016 to get the maximum rebate of €20,000, he or she only needs to make a tax return for those years. However, if he or she needs to draw on tax paid in all of the four years 2013 to 2016, inclusive, to get a €20,000 refund, tax returns would be required for each of those four years.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 25:

In page 12, to delete lines 20 to 27 and substitute the following:

"(iii) where the individual is not a chargeable person within the meaning of Part 41A or, as appropriate, Part 41 for a relevant tax year, he or she has made a return of income, in such form as the Revenue Commissioners may require, and has paid the amount of income tax payable and of universal social charge which he or she is liable to pay, in respect of each such relevant tax year, and".

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 26:

In page 12, line 28, before "he" to insert "in the case of an individual to which subparagraph (ii) refers,".

Amendment No. 26 introduces a revision to the tax clearance requirement on applicants. The obligation to have a tax clearance certificate will only apply to self-assessed taxpayers.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 27:

In page 12, to delete lines 31 to 36.

This involves the deletion of paragraph (c), which is no longer necessary, given the fact that taxpayers will now be able to select the valuation years from which they wish to have the refund taken under the previous amendments.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 28:

In page 12, line 37, to delete "(d) Where" and substitute "(c) Where".

This is consequential on the amendment that we just agreed. It renames paragraph (d) in view of the deletion of paragraph (c).

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 29:

In page 12, line 42, to delete "(5)(a)(i) and (6)(b)(i) and (ii)" and substitute "(5)(a)(ii) and (6) (b)(ii) and (iii)".

This corrects references.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 30:

In page 13, to delete lines 1 to 18 and substitute the following:

"(a) (i) an individual may elect to be deemed to have made his or her application under subsection (6) in the tax year 2016 where, in the period commencing on 19 July 2016 and ending on 31 December 2016, a contract referred to in subsection (3)(a) is entered into between the applicant and a qualifying contractor or, as appropriate, the first tranche of a qualifying loan referred to in subsection (3)(b) is drawn down by the applicant, provided the application is made on or before 31 March 2017, or

(ii) an individual may elect to be deemed to have made his or her application under subsection (6) in the tax year 2016 where, in the period commencing on 1 January 2017 and ending on 31 March 2017, a contract referred to in subsection (3)(a) is entered into between the applicant and a qualifying contractor or, as appropriate, the first tranche of a qualifying loan referred to in subsection (3)(b) is drawn down by the applicant, provided the application is made on or before 31 May 2017,

and where an individual so elects, the application shall be deemed to have been made in the tax year 2016 and the corresponding claim under subsection (3), where it is made in the tax year 2017, shall be deemed to have been made in the tax year 2016,

(b) notwithstanding the obligation on an individual under paragraph (a) (i) to, as appropriate, make an application on or before 31 March 2017, where such an individual makes an application under subsection (6) in 2018 or 2019, the application shall be deemed to have been made in the tax year 2017, and the corresponding claim under subsection (3) shall be deemed to have been made in the tax year 2017.".

Amendment No. 30 introduces a revision to subsection (7) in order to ensure that certain applicants do not suffer as a result of the four-year limit that applies to the making of a tax refund by Revenue. For the purposes of defining the four tax years from which income tax and DIRT are to be taken for the refund, subsection (7) allows in certain circumstances for an application that is made in 2017 to be deemed to have been made in 2016.

Amendment agreed to.

Acting Chairman (Deputy Michael D'Arcy): Amendments Nos. 31 to 34, inclusive, are out of order. Deputy McGrath may discuss these matters on the section.

Amendments Nos. 31 to 34, inclusive, not moved.

Deputy Michael Noonan: I move amendment No. 35:

In page 13, between lines 34 and 35, to insert the following:

"(c) No claim may be made on foot of an application which ceases to be valid in accordance with paragraph (a).".

This inserts a new paragraph (c) into subsection (8), which deals with the validity of applications and when they cease to be valid. An amendment is necessary to make it clear that no claim can be made on foot of an application that ceases to be valid.

Amendment agreed to.

Acting Chairman (Deputy Michael D'Arcy): Amendments Nos. 36 to 40, inclusive, are out of order. Deputy McGrath may discuss these matters on the section.

Amendments Nos. 36 to 40, inclusive, not moved.

Deputy Michael Noonan: I move amendment No. 41:

In page 16, line 31, after "shall" to insert "notify the Revenue Commissioners and".

This introduces a minor revision to subsection (17). This subsection sets out the clawback provisions that will apply where a claimant ceases to occupy a qualifying residence within a five-year period. The amendment simply adds an obligation on a claimant to notify Revenue when he or she ceases occupation.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 42:

In page 17, to delete lines 18 to 23 and substitute the following:

"(18) (a) Where--

(i) arising from a claim under this section, an appropriate payment is made to, or in respect of, a claimant, and

(ii) any condition that imposes a qualification, as respects the claimant, in relation to the making of an appropriate payment under this section is not satisfied by the claimant,

the claimant shall, within 3 months from the date on which the appropriate payment is made, pay to the Revenue Commissioners an amount equal to the amount of the appropriate payment, or part of such an amount, as appropriate.".

This involves a rewording of paragraph (a) of subsection (18). That paragraph provides for a clawback of the refund from a claimant where the claimant is not actually entitled to a tax refund under the terms of the section. That could arise, for example, where it emerges that the claimant was not a first-time buyer. The wording of the paragraph has been amended to a minor extent to ensure that it fully reflects what is intended.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 43:

In page 18, line 19, to delete "paid directly" and substitute "made".

This is a technical amendment to cover the period between 19 July to budget day.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 44:

In page 19, to delete lines 28 to 37 and substitute the following:

"(c) Where in accordance with paragraph (a), a Revenue officer makes an assessment or an amended assessment on a person in an amount that, according to the best of that officer's judgement, ought to be charged on that person, the amount so charged shall, for the purposes of paragraph (a) and Part 42, be deemed to be tax due and payable in respect of the tax year in which the person is liable to pay the amount involved and shall carry interest as determined in accordance with subsection (2) of section 1080 as if a reference in that subsection to the date when the tax became due and payable were a reference to the date the amount so charged is, under this section, payable to the Revenue Commissioners.".

This entails a minor rewording of subsection (20)(c) to ensure that the collection and recovery provisions in Part 42 of the Taxes Consolidation Act 1997 apply to the clawback provisions governing the scheme.

Amendment agreed to.

Acting Chairman (Deputy Michael D'Arcy): Amendment No. 45 has been ruled out of order.

Amendment No. 45 not moved.

Acting Chairman (Deputy Michael D'Arcy): Amendments Nos. 46 and 49 are related.

Deputy Michael McGrath: I move amendment No. 46:

In page 20, between lines 17 and 18, to insert the following:

"(26) The Minister shall, by 30 September 2017, lay before the Oireachtas an independent impact assessment on the effects of the Help to buy Scheme on the supply of new homes, house prices and the residential property market.".

This impact assessment should have been completed before the scheme was implemented. It should assess whether the objectives on the supply of new homes as set out by the Minister are being met, what impact the scheme is having on new and second-hand house prices and what impact the scheme is having generally on the residential property market. I opted for the end of September 2017 because the suggestion of a tax rebate scheme was first mooted this summer, was formally announced in the October budget, has influenced activity in recent weeks, if not recent months, and will be enacted in the coming weeks.

Deputy Michael Noonan: I agree with the spirit of the amendment. I would prefer it if the Deputy would accept my commitment that we will undertake an impact study along the lines that he suggested by that date rather than legislate for it.

Deputy Pearse Doherty: My similar proposal was ruled out of order. Under it, this section would not have commenced until such a study had been undertaken. Deputy McGrath's proposal is better than nothing, but it is not for us to say that we should just give this a go and introduce a tax rebate despite the fact that many of us believe it will increase house prices and most observers who have appeared before committees or made public utterances on it claim that it will increase house prices and will not address the real need. A period of 11 or 12 months in which to carry out an independent impact assessment is not required. Rather, that assessment should be done before this section takes effect. Deputy McGrath rightly stated that this should have been done already. I made the same comment earlier. The assessment should have been undertaken in the time between the scheme's announcement by the Minister, Deputy Coveney, in July and the announcement of its details on budget day. If we believe that such an independent assessment could have been done within that period, the date should not be 11 months later after damage could have already been done in terms of house prices. I very much suggest that if the independent impact assessment suggests it is having little effect on supply outside what would have normally happened in the market but has led to an increase in house prices, even if the tap were to be turned off at that point, house prices would not come down. This should not happen. We should not wait for an independent assessment to be carried out until 30 December 2017. It should be carried out by the Department and concluded within a number of weeks. It should not take officials in the Department 11 months to carry out an independent assessment.

We should learn the lessons of the past in introducing tax rebate schemes or other property schemes. We have learned a very hard lesson. To state we will see how this goes and that in 12 months time we will have a report telling us whether it has worked is not good enough. Will the Minister address the reason the assessment could not be made prior to the end of the year? If the result of the independent evaluation is that it is worth the risk, obviously the scheme should be reviewed, as any scheme would be, after one year when there would be more data available. The assessment that should have been made prior to the scheme being announced needs to be carried out now and the outcome published before the end of the year.

Deputy Michael Noonan: As I stated, of all the sectors of the economy, the development and property sector is the one which has been most difficult to restore to normality, if we can define “normality”. When we look at the cranes on the Dublin skyline, we can see that the commercial property construction and development market has been restored to reasonable health in the past two years or so, but, as we all agree, the residential property construction and development market is still very fragile. It is well short of supplying the needs of citizens. If I were to accept Deputy Pearse Doherty’s proposal, I would stop property development stone dead from this evening and nothing would be built until we received the report. I am not prepared to do that. The property construction and development markets are moving along and being repaired. More houses will be built this year than last year and there will be significantly more built next year. I hope the scheme we are discussing will contribute to the construction of extra new homes for first-time buyers. I am not prepared to introduce an evaluation now which would stop all activity.

Deputy Michael McGrath: I am happy to withdraw the amendment on the basis of the commitment that it will be done in accordance with the timeline set out and address the impact on house prices and supply in the residential property market.

Deputy Michael Noonan: I can agree to that.

Deputy Pearse Doherty: I understand the amendment I tabled which would have had the effect of the section not commencing was ruled out of order. I can understand the reason the Minister’s arguments for not agreeing to it, but what I do not understand because he did not respond to the question I put to him directly is what is preventing his officials from carrying out the type of assessment sought in a number of months instead of having to wait a year. If the assessment turns up the scenario that it was a terrible idea and has been counterproductive, we will have to turn off the tap in the next budget. The Minister is convinced that it is not a bad idea, but if it is, as legislators, we should have as quickly as possible the type of assessment that should have been carried out prior to the scheme being announced in order that we will be able to introduce an amendment to the Finance Bill to turn off the tap. What is to prevent this from being done in the next three months instead of the next 11?

Deputy Michael Noonan: If the Deputy is talking about a desktop review on microeconomic grounds, that can be done, but what we will need to see is whether the scheme is working. Houses are not constructed in three months. The scheme has been designed to increase the supply of new houses and we must give it at least 12 months to see whether it has had an effect.

Deputy Pearse Doherty: Houses not already in the pipeline will not be built in 12 months. Therefore, the argument does not stack up. That is one of the big problems with the scheme in the first place. Obtaining planning permission for development takes a number of years, more than likely two years on average. The Minister has announced a scheme that will last for three years, but the reality is that it will have little impact on new builds because by the time developers who turn around today and state they agree with the Minister that there will be more demand and that, therefore, more houses should be built obtain planning permission and finance and begin construction the tax rebate period will have exppired. My view is that while the Minister has inserted a three year end date, the scheme will not end in three years. That is the reality. What is the last tax rebate scheme that ended when it was supposed to end?

Deputy Michael Noonan: If land zoned for housing for which planning permission has been obtained was capable of being used to house people, there would not be a housing problem in Dublin. We need houses, not planning permissions.

Deputy Michael McGrath: The independent impact assessment to which I refer in the amendment which has been withdrawn is an independent impact assessment carried out by a third party, not the Department of Finance. It should be at arm's length in order that there would be some confidence in it.

Deputy Michael Noonan: I understand that and it is agreed to.

Amendment, by leave, withdrawn.

Acting Chairman (Deputy Michael D'Arcy): Amendment No. 47 has been ruled out of order.

Amendment No. 47 not moved.

Deputy Michael Noonan: I move amendment No. 48:

> In page 20, lines 23 and 24, to delete "who is in receipt of an appropriate payment" and substitute "to, or in respect of, whom an appropriated payment is made".

This amendment will ensure the subsection will operate correctly, irrespective of whether a payment is made to the claimant or a building contractor.

Amendment agreed to.

Question proposed: "That section 8, as amended, stand part of the Bill."

Deputy Michael McGrath: Amendment No. 47 which was ruled out of order concerned the supply and cost of delivering new homes. It sought a report on the cost of delivering a new home in Ireland and the options available to reduce the cost without compromising the quality of a home. The Minister may argue that it is not a matter for the Department, but I seek a commitment that the issue will be tackled. If he looks at the report of the all-party housing committee, he will see that it sought to have the Housing Agency carry out an annual audit of private construction costs and compare them to costs in other jurisdictions, with a view to making recommendations to the Government aimed at making private houses more affordable. In making its recommendations the agency would look at the cost of construction, the cost of financing, development levies, the cost of compliance, levels of VAT and other issues that might be deemed relevant in reducing the cost of housing.

In the *daft.ie* third quarter report on rents released yesterday Mr. Ronan Lyons makes the point which he has made consistently that there is no more urgent task facing the Minister with responsibility for housing, his Department and advisers, the Housing Agency and others involved in Rebuilding Ireland than understanding the reasons the cost of building, apartments in particular, is so dramatically out of line with incomes and the cost in other countries. I would like the Minister to respond to this point and put some process in place whereby we could make a detailed analysis of all of the inputs in the cost of delivering new homes in Ireland, whether they be construction costs, levies, VAT and taxation levels generally.

The next issue I want to raise concerns the block of amendments which have been ruled out of order dealing with the cut-off dates that apply to eligibility for the scheme. In the case of self-builds, if any element of the mortgage was drawn down before 19 July, the prospective buyer or the person building the home will not be able to benefit from the scheme. This is very unfair, particularly in view of the change we have just made to ensure completed housing stock in housing estates will be eligible for a tax rebate for the purchaser. With regard to non-self-builds, the Bill states people buying homes in housing estates must have entered into a contract after 19 July. People who enter into the contract before that date but do not draw down the mortgage until afterwards should be accommodated. We are talking about a small number of transactions.

Deputy Michael Noonan: Deputy McGrath suggests a report on the cost of delivering a new home in Ireland and the options available for reducing that cost, without compromising the quality of the home. While I have no doubt that such a report would be of interest, I would suggest that this is an overly simplistic approach to the complex issue of why construction has slowed.

A report by the Society of Chartered Surveyors of Ireland highlighted that the cost to build a house is approximately half the overall cost of providing a house. This report highlights that non-construction factors, such as the cost of acquisition and development finance, design, sales and marketing, margin, including profit, and elements such as levies and VAT, are all important elements influencing the economic and sustainable cost of a new house.

Officials in my Department previously looked at this issue, and highlighted that issues affecting the profitability of construction include a wide range of factors and cost elements, including labour costs, taxes, development contributions, building regulations, land price and financing costs. These considerations fed into the Government response to this matter, namely, the number of measures and actions being taken to lead to a fully functioning housing market that responds adequately to the needs of our citizens. These are included in Rebuilding Ireland - The Action Plan for Housing and Homelessness, which was launched last July. Implementation of the plan is being led by the Minister for Housing, Planning, Community and Local Government, with cross-departmental support.

This comprehensive action plan takes a holistic approach to addressing the many interacting structural constraints affecting the housing market in areas such as planning and land use, as well as regulation and skills deficits in the construction sector. While the primary focus of the action plan is to tackle structural constraints, fiscal supports can play a supporting and time-bound role in addressing the current problems in the housing sector.

I do not consider the completion of such a report, as sought by the Deputy's amendment as being appropriate for inclusion in the Finance Bill, as the matter is in the first instance more appropriate to the Minister for Housing, Planning, Community and Local Government. There is, however, merit in the amendment and I would be prepared to raise the issue with the Minister for Housing, Planning, Community and Local Government. Quite frankly, my Department would not have the capacity to do this alone because it would not have access to the information.

Deputy Michael McGrath: The Minister referred to the report from the Society of Chartered Surveyors and I do not question the integrity of that but it is not an analysis on behalf of Government. Given the significance of this public policy issue there should be a State-commissioned analysis of the cost of delivering new homes. The amendment was ruled out of order but I will consider another way of raising it on Report Stage. In the meantime, could the Minister take up the issue with the Minister for Housing, Planning, Community and Local Government and secure agreement that such a report would be prepared and come back to the committee?

Deputy Michael Noonan: I will run the Deputy's amendment by the relevant Minister and report to him on Report Stage.

The Deputy has put forward several amendments to the help to buy scheme provision, which would fundamentally change the purpose and focus of the scheme. The amendments would mean that the tax relief would only become available when a mortgage was drawn down or in the case of a self-build, when the last tranche of the relevant mortgage is drawn down. They would basically have the effect of altering the timing at which the rebate would be paid. This issue was raised by the Deputy in his contribution to the Second Stage debate.

The principal aim of the help to buy scheme is to help first-time buyers with obtaining the deposit required under the Central Bank's macroprudential rules and if these amendments were to be accepted, they would change the whole purpose of the scheme. It would no longer be of any assistance to individuals in obtaining a mortgage but would instead provide a tax rebate after a mortgage has been sourced, drawn down and the home purchase, or self-build, was effectively completed.

If I were to accept these amendments, the scheme would not help those struggling to meet the deposit requirements of the macroprudential rules and thus might never be in a position to draw down a resulting mortgage. Consequently, these changes would do little to help individuals obtain a mortgage, especially where they are renting and finding it difficult to save the required deposit. It would also focus the relief entirely on those who are already in a position to obtain a mortgage and are therefore not in need of the assistance of the Exchequer.

The changes proposed would also result in the scheme bringing in a large amount of deadweight and retrospectivity, by providing relief to those who were in a position to put down a deposit before 19 July, as well as to those who have been building a house, possibly for several years, long before the help to buy scheme was considered.

The amended scheme therefore would not have the desired supply effect, as it would no longer have the result which was noted by the Central Bank, namely, that developers who had been struggling to raise funds to build houses would be better able to do so, as many first-time buyers who want to buy new starter homes would be in a better position to place deposits and obtain approval for mortgages. It should be highlighted that several banks currently offer cash back, which consists of a percentage of the mortgage which is received when a mortgage is drawn down. If these changes were accepted, they would effectively provide a rebate from two sources at that time, while still providing no support for individuals to obtain a deposit in the first place. For all these reasons I cannot accept the amendments proposed.

Deputy Michael McGrath: The Minister said accepting the amendments would not have the desired supply effect but we are enabling completed housing stock, which may have been sitting there for months if not for the past few years, to be purchased under the scheme now whereas a young couple who have just turned the sod on a self-build and have just drawn down the first tranche of the mortgage to pay the builder cannot avail of the scheme because the house might not be completed for a further six months. That is unfair. In respect of a housing estate house if people have signed a contract prior to 19 July but the house has not been started and it could be another 12 months before it is delivered, they will not be eligible to benefit from that scheme. I understand that with any new scheme there will be a cut off point and there will be winners and losers on either side of that but the fact that the Minister is accommodating houses completed before 19 July but not those who are building their own house or have bought a house that has not yet been built, is unfair.

Deputy Michael Noonan: If completed houses were not included we would potentially be encouraging the retention of vacant housing stock while incentivising the purchase of newer builds. The occupation of houses rather than their construction is part of the supply issue which we are trying to resolve.

Deputy Richard Boyd Barrett: I support the proposal for a report on the cost of housing. Deputy McGrath referred specifically to the cost in the private sector but I think we need to know the cost of the State building housing too. I have tabled several parliamentary questions on this in recent years and the figures I get vary significantly. We need to compare the costs of public sector and private sector building to either further delineate the different types of housing that could be built and by whom they might be built. We should examine the relative cost of housing units built by direct labour by the State as against public housing built by contractors brought in to deliver it. The Minister referred to profit-taking, marketing is another cost to which he referred, and there are other costs which add to the cost of building, which we would not have if housing units were built by direct labour. Obviously, the cost of land is an issue. Any study needs to examine that and also co-operative housing, of which there are various schemes in development. A good scheme has been proposed in my area where there is a plan to build four high specification, environmentally advanced houses, the projected cost of which is €360,000 for four houses.

Acting Chairman (Deputy Michael D'Arcy): I ask the Deputy to stick to the section.

Deputy Richard Boyd Barrett: I cite that as an example of the different costs there are for building housing, which is precisely relevant to the section.

Deputy Michael Noonan: Four houses are being built for €360,000.

Deputy Richard Boyd Barrett: Four houses for €360,000.

Deputy Michael Noonan: Approximately €120,000 a piece.

Deputy Richard Boyd Barrett: It is less than that.

Deputy Michael Noonan: For €90,000 a piece.

Deputy Richard Boyd Barrett: Yes, €90,000 each.

Deputy Michael Noonan: More of those could be built.

Deputy Richard Boyd Barrett: This is a proposal which Dún Laoghaire-Rathdown County Council has taken up. There are different ways of delivering housing and these are high specification, environmentally advanced housing units. Any study in this area needs to examine all the different models of delivering housing and make a comparison between them.

Deputy Michael Noonan: That is very interesting but it is a matter for the Departments with responsibility for housing and for the environment, it is not a matter for me. It is not difficult to establish the price of a social housing unit built by local authorities. It is a matter of simply taking the final settled contract price and dividing the number of units into it, but a local authority usually builds on its own land and quite often it is land it has held historically. The actual cost of building is simply the unit cost divided into the contractual price. On the private sector side, we are not quite sure what is happening there at times. I can see the validity in the Deputy Michael McGrath's proposal.

Deputy Richard Boyd Barrett: Sorry, Minister------

Deputy Michael Noonan: I have no problem with the Deputy's proposal but it is not a matter for me.

Deputy Richard Boyd Barrett: This is related to the finances of the State. The reason I put forward the proposal is that we need the study to be comparative. I am referring to not only council housing but affordable housing. If it turns out that we can deliver affordable housing for purchase much cheaper by the State providing it directly, then we need to know that as part of any serious study.

Deputy Michael Noonan: The historic evidence is to the contrary. Local authority houses per unit historically were more expensive to construct than-----

Deputy Richard Boyd Barrett: I would like to see the study.

Deputy Michael Noonan: -----private housing. That was one of the factors that fed into the former Minister, Noel Dempsey's decision around 2004 to move from local authorities building social housing to providing money to local authorities to purchase houses in private housing estates. There were also social integration issues involved, which I always thought was a pretty good idea. The costs of council built houses were dearer right across the local authorities than the cost of private houses.

Deputy Pearse Doherty: I would like to see data but I probably would not dispute that and there is a good reason for it. God help the many people who were forced to buy properties in many of the developments built during the Celtic tiger period because many of the properties that were built were not up to standard and were not overseen in the way that they should have been. We know of the consequences of that in some of the bigger developments. The same was the case in many smaller developments. Many apartments and houses in Dublin were built with breeze blocks. It is unbelievable that was allowed under the regulations. That would not be in the case in local authorities where standards were different. I acknowledge this is a matter for the Minister with responsibility for housing. However, he has rejected the suggestion put forward in the Deputy McGrath's amendment to carry out such a study. That recommendation was made by the all-party Committee on Housing and the Homelessness but it has not been actioned and it should be.

In the context of a review of this scheme, we should have that information when we examine the overall data on how much it costs to build a private house in certain areas in this State. The issue Deputy Boyd Barrett raised should be added to that. It is not a question of how much it costs to build a social housing unit or scheme. The real question is the net cost of that to the State. It may cost a developer €220,000 to build a house but with money going out on the one hand and coming in on the other, what would be the real cost for the State to build a social housing unit across the road today? The labour costs may be €50,000 but €20,000 of that would come back to the State through income tax. The materials may cost another €40,000 but that can be reclaimed in VAT. The net cost of building a social housing unit in the State has never been provided and that should be considered. I will move on from that issue because it is not the Minister's area of responsibility but at Cabinet there is a requirement to try to influence the Minister with responsibility for housing to make sure that this type of all-party recommendation is executed as quickly as possible.

On the section, with which financial institutions did the Minister engage when he consulted on the help to buy scheme? Will he explain to the committee the nature of those consultations, who he met and the response to them? Was it the Minister or his officials who engaged in that process and how were they chosen?

Deputy Michael Noonan: The banking division in the Department of Finance discussed the proposal with the banks in which the State has an interest, which would be AIB, Bank of Ireland and Permanent TSB.

Deputy Pearse Doherty: Was that in a formal meeting or did they supply submissions that could be made available to us?

Deputy Michael Noonan: They had the normal discussions they have; there is constant interchange between the banking section and the Department. I also discussed it with the Governor of the Central Bank, as I mentioned earlier, and I understand the Central Bank took some soundings on how the lender banks, the mortgage providers, would deal with this proposal in terms of the deposit and their willingness to include it as part of a deposit.

Deputy Pearse Doherty: When the officials engaged with the financial institutions that we either own or in which we have a substantial stake, did any of them mention a fact the Governor pointed out after the Minister published the scheme, namely, that the average loan-to-value ratio rate on which they are granting mortgages is below the loan-to-value ratio of 80%?

Deputy Michael Noonan: We were not asking them to input into the policy underpinning the scheme. We were inquiring as to how mortgages operated in practice and how this could fit into their practice of lending as part of the deposit in accordance with the prudential requirements of the Central Bank. Again, the advice of the Central Bank to move the mortgage threshold from 80% down to 70% was to widen it. The arguments used were that the Central Bank did not want to incentivise unnecessary borrowing on behalf of borrowers because it formed the opinion that if it was left at 80% people who did not require that level of mortgage would borrow at that level of mortgage simply to avail of the tax rebate. Since the average was lower, 70% was more appropriate, but it has the effect, as the Deputy said, of widening the scheme, not of narrowing it.

Deputy Pearse Doherty: It has the effect of widening the scheme and providing a tax rebate to individuals who can easily meet the prudential rules of the Central Bank.

Deputy Michael Noonan: The Deputy does not know that.

Deputy Pearse Doherty: Of course I know that.

Deputy Michael Noonan: He does not because a lot of that could be coming from parents.

Deputy Pearse Doherty: That means, however, that they can easily meet it. The Central Bank's rules on the loan-to-value ratio are such that, even if one were purchasing a house worth €1 million, one would need a deposit of less than 20% of the value. When the Minister decides to reduce the percentage to 70%, it means people who did not have a problem meeting the rules are now able to get the tax rebate. Was it the Central Bank that suggested 70%? How was that arrived at by the Department or Minister?

Deputy Michael Noonan: In my personal conversations with the Central Bank, 70% was not mentioned. The figure for the average mortgage was 78.7%. The argument was presented to me that it would incentivise unnecessary borrowing and that it was in the pruential interest to keep the level of mortgages, as a percentage, down.

Deputy Pearse Doherty: Given that there is no mortgage that could be taken out at a loan-to-value ratio of 78% that would have difficulty meeting the Central Bank rules, was it not a bit of an eye-opener to the Minister that the very rationale behind this section was such that, given the difficulty of accumulating the deposit, he was barking up the wrong tree on this one? The Governor of the Central Bank rightly pointed out to the Minister that the average mortgage drawdown in this State was below the 80%, which means it was possible to have a deposit in excess of what the Central Bank required in terms of averages, and that the Minister was effectively requiring one to borrow more to reach the figure of 80% in order to qualify for the €20,000 tax rebate.

Deputy Michael Noonan: We have gone over all this ground already. I do not agree with the Deputy; he has a different point of view. It seems to me that he confuses €1,800 with €18,000 in his additional argument about the cost. He talked about astronomical sums of money. I disagree with him but he is entitled to his view.

Deputy Pearse Doherty: Was it all a matter of the banks in which we had a share? The Department engaged with AIB, Permanent TSB and Bank of Ireland.

Deputy Michael Noonan: That is as I understand it.

Deputy Joan Burton: I wanted to move my amendment, No. 49.

Acting Chairman (Deputy Michael D'Arcy): That is in the next section.

Deputy Joan Burton: It covers a lot of the same material. Therefore, can we agree to conclude on this and proceed to amendment No. 49?

Acting Chairman (Deputy Michael D'Arcy): We must dispose of section 8 first.

Question put.

The Committee divided: Tá;, 3; Níl, 2.	
Tá;	Níl;

Burke, Peter.	Boyd Barrett, Richard.
D’Arcy, Michael.	Doherty, Pearse.
Noonan, Michael.	

Question declared carried.

Staon: Deputy Joan Burton, Deputy Michael McGrath and Deputy Michael Moynihan.

Acting Chairman (Deputy Michael D’Arcy): Deputies Joan Burton, Michael McGrath and Michael Moynihan have voted to abstain.

NEW SECTION

Acting Chairman (Deputy Michael D’Arcy): The lead-in details on amendment No. 49 are incorrect on the numbered list. Instead of “In page 8, between lines 14 and 15, to insert the following:”, the correct lead-in should read: “In page 20, between lines 25 and 26, to insert the following:”.

Deputy Joan Burton: I move amendment No. 49:

> In page 20, between lines 25 and 26, to insert the following:
>
> > **“8.** The Minister shall, within one year of the passing of this Act, prepare and lay before Dáil Éireann a report on the impact of section 477C “Help to Buy” on prices for new houses in the property market inclusive of an econometric analysis of the scheme.”.

To some degree much of the detail has already been discussed. I would like the committee members to consider a report within a reasonable timeframe to see what is happening in terms of building. The second part of the previous discussion was concerned with costs. In the work of the committee, this could be shared jointly with the finance committee. However, the Committee on Budgetary Oversight had the services of DKM, which had access to the different Departments.

The Minister has made a reasonable point that much of the information on housing costs and so on that we are discussing is really located in the Department of Housing, Planning, Community and Local Government rather than being held in any great detail in the Department of Finance. If, by Report Stage, we had worked out a framework in which to conduct this study, it could be an important contribution.

I looked at some websites detailing house prices in parts of Dublin. In Castleknock there are three-bedroom houses priced at €500,000. They are very insulated. In some cases four-bedroom houses are selling at €620,000. On the western side of Dublin 15 there is a large area of land which is a special development zone. It has had planning permission for long period of time and has scope for 3,000 homes, which is the equivalent of two small new towns or villages.

There is a critical issue that relates to the Ministers for Finance and Public Expenditure and Reform which may be relevant to the Committee on Budgetary Oversight. While the previous Government gave a capital allocation to effectively allow for the development of the necessary infrastructure such as roads and so on before the sites could be developed, the funding made available to Fingal is nowhere near enough to provide for all the possible developments that could happen, which are ready to go and are beside existing developed areas. Carrickmines could be the same; I do not know the area as well. This is a real problem. The Fingal county manager has advised that until there is access into the land and certain key features are developed, we will not get the houses built.

I know this is not directly the subject of the Finance Bill. However, if we are trying to get this thing kick-started and follow on from all the very good work the housing committee did, it should be possible to use a group of external consultants and use the Committee on Budgetary Oversight or the finance committee to actually do it. I make that proposal; the Minister will have to give it some thought.

I am not sure if I heard the Minister correctly. I believe he spoke about the strategic investment bank. Did I hear him suggest that the borrowing rate for the medium-sized developers, I mentioned earlier, was 12%? Is that given by way of preference loans, equity-type loans, with a lower risk factor? In the context of where interest rates are at the moment, 12% is very high. I am very aware that Deputy Michael McGrath has raised that issue on a number of occasions. If we want builders to build, we also need to address that matter. A rate of 12% is very high and certainly much higher than comparative rates of interest throughout Europe.

Various information-gathering studies are necessary. Doing them and getting genuine comparators on the cost of new homes would be extremely helpful in identifying where we can get stuff to go.

Deputy Michael Noonan: The discussion has gone well beyond the Finance Bill. I have been asked to comment on areas on which I have no expertise.

In talking about 10% or 12% I was referring to the equity piece. The traditional model for a small builder building 70 or 80 houses was bank finance for about 60% to two-thirds, with the rest provided by the builder from the profits from the previous 70 or 80 houses he built and it was rolled over into the next housing estate. After the collapse, there was no one to provide the equity piece. The equity piece is being provided again and some of the funds are being provided by the Strategic Investment Fund through the banks.

The rate started out at about 14%, but as I understand it, it is between 10% and 12% now, but that was on the basis of financing 90% of it. As the sector repairs, the averages for what the small builders require have now gone down to 70% or 75%. Because the percentage is not so big, the risk has diminished and the interest rate is now going down closer to about 8%. The Deputy should not tie me hard to any of these numbers; I am giving her indicators.

It would be entirely different with, for example, Cairn in Cherrywood. It develops the town centres across the United States in big tranches of land and then it develops the facilities, the roads, power lines, gas lines, sewerage, water etc. Then it sells on to the small builder who might want to build 100 houses, but all the infrastructure is already in place. It is public quoted and it is getting money at 2%. The people in west Dublin that the Deputy knows, Cairns, is publicly quoted-----

Deputy Joan Burton: No, they are builders coming out of the bigger developers who own some of these sites. They are basically in NAMA or recently exiting NAMA.

Deputy Michael Noonan: They are different again. The NAMA people are being financed through NAMA. NAMA is putting up the finance for the builders within NAMA.

Deputy Joan Burton: Not for the infrastructure such as key road builds. Large distributor roads are needed for 3,000 houses.

Deputy Michael Noonan: That is a different piece again. The Government has provided funds for that to local authorities.

Deputy Joan Burton: In Fingal there is so much land for development that what has been given is easily absorbed already.

Deputy Michael Noonan: Let us see.

Deputy Richard Boyd Barrett: It is also a problem in my area.

Deputy Michael Noonan: Every local authority has to prioritise. The Minister for Housing, Planning, Community and Local Government has not told me that local authorities have come back to him looking for additional funds to open sites. Money is available and it was put up on the basis of a first tranche of money.

Acting Chairman (Deputy Michael D'Arcy): We have gone well beyond the Finance Bill here.

Deputy Michael Noonan: The extra money can be made available, but it has to respond to requirements. There is no point in putting up money that will not be used. The practicalities of this are not about drawing up reports, or having reviews or designs; it is about using the resources to build more houses and we have to concentrate on that.

Deputy Joan Burton: It is not possible to develop the site without some of the key elements. In the Minister's example of the company in Cherrywood, clearly, it is doing a great deal of the primary development work, which will allow the land to be opened up for traditional house building.

Deputy Michael Noonan: There is also the money to which the Deputy referred, which is available to local authorities to open up land that is inaccessible and in which no one builder will invest unless it is opened up. That is a public investment function, for which money is available. I forget whether it was €80 million or €100 million that was put up, but it was a first tranche. It can be discussed to develop it further.

Deputy Joan Burton: We have now had five proposals essentially based around study, information and data. Some of the information is financial, while some relates to more technical elements. Are we going to come together with something to provide the information we all seem to believe is required one way or another?

Deputy Michael Noonan: So far, the suggestions I have are in different categories and do not necessarily overlap. However, I have made a commitment to Deputy Michael McGrath that I will commission an independent impact assessment of the help-to-buy scheme with a view to examining the general impact under the headings he has suggested. That will be done in September 2017. On that basis he dropped his amendments and is accepting the commitment I made.

Deputy Richard Boyd Barrett proposed that there be a more extensive assessment of the cost of building local authority houses and that a comparison be made with the cost of building private houses. That matter should be referred to the Minister for Housing, Planning, Community and Local Government.

The third proposal is that the committee, together with the budgetary committee, make a combined intervention through a general assessment of further difficulties in housing supply along the lines the suggested by the Deputy. I would have no objection to this, but it is a matter for the committees to organise their work and for Parliament to organise its work.

Deputy Michael McGrath: The Minister should read amendment No. 49 which essentially is captured by the impact assessment which the Minister has committed to conducting by next September. Deputy Richard Boyd Barrett referred to an addendum to the commitment given by the Minister to talk to the Minister for Housing, Planning, Community and Local Government about the State commissioning an analysis of the cost of delivering new houses. That principally relates to the supply of new private homes, while the Deputy was referring to the public supply of social housing. There are only two issues involved - they concern the assessment of the impact of the help-to-buy scheme and the cost of delivering homes. One relates to the Minister's Department, while he has committed to speaking to the Minister for Housing, Planning, Community and Local Government about the other.

Deputy Michael Noonan: I will discuss that matter with him and we will have notes on this discussion. I will come back to the Deputy on Report Stage to see where we are at.

Deputy Joan Burton: An econometric analysis is a little different from an impact assessment.

Deputy Michael Noonan: Of course.

Deputy Joan Burton: It is an analysis of data which we also need. I will withdraw the amendment with a view to retabling it on Report Stage. I would like a response from the Minister. Is he talking about an econometric analysis? I could conduct an assessment quickly, as I am sure loads of other members could.

Deputy Michael Noonan: I have not given the Deputy a commitment because I do not know what she is requesting. She is talking about this committee, together with the budgetary committee, commissioning a piece of work. I do not see where I fit into it.

Deputy Joan Burton: Then I will leave the amendment stand. I am just trying to be helpful.

Deputy Michael Noonan: I am also trying to be helpful. I will help the Deputy in any way I can.

Amendment put.

The Committee divided: Tá;, 3; Níl, 3.	
Tá;	Níl;
Boyd Barrett, Richard.	Burke, Peter.
Burton, Joan.	D'Arcy, Michael.
Doherty, Pearse.	Noonan, Michael.

Amendment declared lost.

Staon: Deputy Michael McGrath.

Acting Chairman (Deputy Michael D'Arcy): Deputy Michael McGrath has voted to abstain. Standing Order 97(1) negatives a question when there is an equality of votes.

Deputy Joan Burton: Before the meeting concludes, it would be very helpful if the Minister or his officials would provide an explanatory note on the very long and complex amendment on IREF before the next meeting. It is very long and given the length of this evening's discussion on relatively short amendments, it would be very helpful to get an explanation of it.

Deputy Michael Noonan: Which amendment is that?

Deputy Michael McGrath: It is Government amendment No. 100 at section 22. It is a very long amendment.

Deputy Joan Burton: It is pages long.

Deputy Pearse Doherty: Could the Minister supply his speaking note to members prior to the meeting?

Deputy Joan Burton: Otherwise, we could be here for months.

Deputy Michael Noonan: We will do that.

Acting Chairman (Deputy Michael D'Arcy): We will adjourn now and resume tomorrow on section 9 of the Bill.

Progress reported; Committee to sit again.

The select committee adjourned at 9.05 p.m. until 10 a.m. on Thursday, 10 November 2016.