

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, 7 Samhain 2018

Wednesday, 7 November 2018

The Select Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Richard Boyd Barrett,+	Deputy Pearse Doherty,
Deputy Peter Burke,	Deputy Michael McGrath,
Deputy Joan Burton,	Deputy Paul Murphy,
Deputy Pat Casey,+	Deputy Jonathan O'Brien.+
Deputy John Deasy,	
Deputy Paschal Donohoe (Minister for Finance),	

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

In attendance: Deputies Alan Farrell, Tom Neville and Eamon Ryan.

DEPUTY JOHN MCGUINNESS IN THE CHAIR.

Finance Bill 2018: Committee Stage

Deputy Peter Burke took the Chair.

Acting Chairman (Deputy Peter Burke): Apologies have been received from Deputy McGuinness, the Chair, who is running late. I welcome the Minister for Finance and Public Expenditure and Reform, Deputy Donohoe, and his officials to our meeting, the purpose of which is to consider the Finance Bill 2018. The Bill was referred to the select committee by Dáil Éireann on 25 October 2018. It is proposed that we will adjourn at 10 p.m. and that we will suspended proceedings between 1 p.m. and 2 p.m. and between 5 p.m. and 6 p.m. With agreement of the members, depending on progress a short break may be taken at 11.15 a.m. Is that agreed? Agreed. The meeting will also be suspended for any Dáil votes. Is that agreed? Agreed.

In order to provide for the smooth running of the meeting, any Deputy acting in substitution for a committee member should formally notify the clerk now if he or she has not done so. Divisions on the Bill will be taken as they arise. Members attending the meeting in accordance with Standing Order 95(3) should be aware that, pursuant to Standing Orders, he or she may move his or her amendments but may not participate in the votes on them. We will now proceed to section 1.

SECTION 1

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

Minister for Finance (Deputy Paschal Donohoe): This is a purely technical section, which, for ease of reference, contains a definition of “Principal Act” for the purposes of Part 1 of the Bill, which deals with universal social charge, USC, income tax, corporation tax and capital gains tax. Where the term is used in Part 1 in the Bill, it means the Taxes Consolidation Act 1997.

Question put and agreed to.

SECTION 2

Deputy Richard Boyd Barrett: I move amendment No. 1:

In page 8, between lines 10 and 11, to insert the following:

“(3) Within 6 months of the passing of this Act, the Minister shall produce a report on the benefit of abolishing the universal social charge on all income below €90,000 and replacing it with 4 new income tax bands for income earned between, €100,000 and €140,000; €140,000 and €180,000; €180,000 and €250,000; and over €250,000.”.

The Comptroller and Auditor General recently produced a report which confirmed something that some of us have been saying for a long time, namely, that the richest people in Ireland do not pay their fair share of taxes. He revealed the quite astonishing fact that 90 high-net worth individuals, defined as people whose average income is in excess of €50 million a year - a tidy sum for those who earn that money - paid less tax than the average worker. He cited loopholes, tax allowances and so on as the mechanisms by means of which some of the richest people pay less tax than the average worker. One can imagine how that would stick in the craw of the average worker. Coming from a source like the Comptroller and Auditor General is a serious fact that is difficult to dispute.

It comes on top of the fact that Ireland's income distribution is one of the most unequal in the western world. It changes after social transfers but in the basic distribution of income there is a shocking level of inequality in the distribution of income. We must begin to discuss, therefore, making the very wealthy in our society pay their fair share of tax. In our alternative budget submission we have a whole range of measures in different areas, but this one relates to income tax. The USC has been a punitive austerity tax for low and middle income workers and it cannot continue to be justified. If what we see as punitive taxes on workers are to be removed, which would be justified, the money needs to be found elsewhere.

We emphasise that we believe in balanced budgets and one of the measures we propose to provide a balance is to have a whole series of new bands of taxation for people on the highest earnings in excess of €100,000. Our specific proposal is that people who earn between €100,000 and €140,000 would pay a rate of 50%, those who earn between €140,000 and €180,000 would pay a rate of 55%, those who earn between €180,000 and €250,000 would pay 60%, while those who earn in excess of €250,000 would pay 65%, on the earnings over those amounts. I should add that those people would benefit from our proposals to abolish the USC for earnings less than that as well as the abolition of property tax, for example. On the earnings that are in excess of the figures I mentioned, however, they would pay much higher rates of tax.

While they might seem radical to the Minister and many in the Dáil, it is worth saying that those levels of taxation on high income were not unusual for much of the post-war period. The most successful period of expansion of western capitalism, for want of a better word, was probably in the post-war period when there were taxes of that sort on wealth. The corollary of having those higher taxes on wealth was the provision of a welfare state. Expansions in public housing, improvements in access to education and the provision of the health service and so on in much of the western world were based on the wealthy paying higher taxes. More money was available for universal access to third-level education, more public transport, more public housing and national health services. We are an outlier in European terms in the way we tax wealth and income. It is not surprising in that context that we have the sort of crises we face in the very areas where a fair tax system would provide the revenue, namely, health, housing, education, infrastructure and so on. All of these things are creaking at the seams, crumbling or in severe crises because, in essence, the rich do not pay their taxes.

This amendment seeks to require us at least to have a serious debate about these issues and about what the potential impact would be of moving in this direction. The Minister will say the rich will scream and run out of the country and the economy will go down the tubes if we dare to ask them to pay a little extra tax, but I do not buy that for one minute. We costed this proposal with the Department and, according to the Minister's response to a parliamentary question, these measures would raise €2 billion, which is a tidy sum, to help shift the unequal distribution of wealth in Irish society, which is a fair and reasonable thing to do. It would not impoverish the people who would have to pay these taxes and they would still be well off but it would begin to challenge the significant inequalities in wealth that exist in our society. On that basis, it is a fair and reasonable measure to consider.

Deputy Paschal Donohoe: I will deal with the amendment before addressing some of the other issues the Deputy raised. There are a considerable number of issues with the Deputies' proposal, namely, the cost to the Exchequer, the erosion of our tax base, increased complexity of our tax system and an impact on the competitiveness of our national tax code. The Deputies' have not specified the income tax rates that would apply under the proposal they are putting forward, but it is estimated that the removal of the application of the USC on incomes below

€90,000, as suggested, would cost in the region of €2 billion in a single year. Assuming no other policy changes to the structure of the charges, it is likely the new income tax bands would need to be as high as 71.25% to raise the same level of revenue for the Exchequer and ensure this is a cost-neutral proposal. In the event of this being levied as USC, the rates could be as high as 76%. Neither of these estimations takes account of any behavioural change that could result from any significant increase in marginal rates of taxation. To introduce any higher rate would increase the marginal rate of tax. High marginal tax rates have an effect on behaviour and could also harm our international competitiveness.

The considerable progress that has been made in recent years in restoring our economy cannot be taken for granted, particularly in light of current challenges in the international arena. Introducing a USC exemption for all those earning up to €1,700 per week would have a considerable effect on our tax base. The current exemption threshold is €13,000 per annum and it is now estimated that 28% of all income earners will not be liable for USC in 2019. To further increase this entry threshold to €90,000 would exempt over 90% of income earners from USC. This would significantly narrow the income tax base and expose our economy to significant risk in the event of a future economic downturn. We have a very progressive personal income tax system that plays a crucial role in the process of income redistribution. Our redistributive tax system has recently been acknowledged by the IMF, the OECD and the ESRI. Deputies will be aware that during the economic crisis and the period before it, we reached a point where 45% of all income earners were exempt from income tax. That was not sustainable. It placed an unfair burden on those 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 make some contribution according to their means is the most fair and sustainable income tax system in the long term. The Deputies' proposal could also introduce considerable complexity to the tax code. We would go from a two-rate system to either a five or six-rate system. This would be a considerable additional complexity. It could, in turn, lead to an even more complicated system of taxation. Against a background where we have a partially individualised system, a multi-rate band income tax structure along the lines proposed would be very complex to design and operate. Having regard to all these issues, there is no need to carry out a further analysis of the proposal outlined by the Deputies. For this reason, I cannot accept the amendment.

Deputy Richard Boyd Barrett: These debates reveal the fairly fundamental differences between the Minister's perspective and the perspective of those of us on the left. As a result, I will not labour the point too much. I do not buy the complexity argument one bit. One could not get anything more complex than some of the stuff that is in this Finance Bill. When one looks at some of the reliefs, formulas and equations that we have for various aspects of our tax code it seems we have a very competent Revenue Commissioners and Department of Finance that can do this. I am absolutely amazed every year just looking at the work that goes into it and the complexity of it and the difficulty of getting one's head around it but it all works as it is supposed to most of the time. Things get tweaked and tightened up and that is part of what we do but the idea that it is just too complicated to tax the wealthy is ridiculous. I do not buy that for one second.

The Minister stated that there may be behavioural consequences for people on these very high earnings if one was to levy these kinds of tax rates on them. That is possible, although when one looks at the behaviour of many of these high-net-worth individuals even as it stands, one sees that their loyalty to the country is minimal. In many cases, they are tax refugees based elsewhere. They do not want to pay tax and do not believe in paying tax. I do not think we

should pander to these kind of people who have absolutely no care at all about the consequences for Irish society of people as wealthy as them not paying tax. I do not really buy that. It is essentially saying the rich have us over a barrel. If we dare to touch their wealth, they will sabotage the economy. I do not think we should accept that approach. There would be positive behavioural consequences as a result of our proposals were they to be implemented, which is that ordinary working people who tend not to be tax refugees because they live and work here and spend their money here and will not move whatever is done to them, actually contribute. The more income they have, the more it contributes to the domestic economy and the high street in their localities. There might be some behavioural changes on one end of the spectrum but they would be easily outweighed by the positive impact of people having more money in their pockets and actually contributing to the real economy here.

I also think it would deal with a lot of the concerns the Minister might have about tax bases and so on because the more ordinary workers have income, the more it generally feeds into the cycle of money going into the economy. It results in more economic activity and that generates revenue at a range of levels for the Exchequer. I do not really accept the Minister's argument but I know he is not likely to be swayed by my opinion on this. Nonetheless, I think it is important to have these debates. One of the unfortunate features of the past 25 or 30 years and what I see as the neoliberal revolution is that certain political and economic debates which used to be had stopped being had. It was assumed that neoliberalism and that particular approach to organising an economy was the only game in town. I remember debating with Senator McDowell's brother, the economist. I forget his first name.

Deputy Paschal Donohoe: It is Moore.

Deputy Richard Boyd Barrett: Moore McDowell. He pointed out that after the collapse of the Berlin Wall in 1989, they stopped doing comparative economics. We do not debate alternatives any more. I think that is wrong. When one looks at the state of the global economy generally and the crises we have had recently, the idea we do not discuss alternatives is wrong and will lead us into trouble. It has led us into trouble. We need to debate these alternatives and that is why I put the amendment forward but I do not expect I will get the support of the Government.

Deputy Pearse Doherty: I understand the principle behind the amendment. The Deputy has raised a very important issue, particularly in the context of his reference to the Comptroller and Auditor General's report, which shows that high-net-worth individuals are calculated by Revenue as those with assets of more than €50 million. I think it is significant to say that is high compared with how other jurisdictions do it where they have a far lower threshold. It is fair to say that it was a shocking report for many members of the public because it shows that 90 of those individuals were paying less income tax than a person on an average income. We know they did it not as a result of the rates of tax but as a result of different measures which were introduced in previous Finance Bills, many of which are being expanded in this Bill. There are good intentions behind them but it results in high-net-worth individuals being able to write off their tax, whether by using capital allowance or write-offs of business investment or other measures which reduce their effective tax rate to below what they are actually paying their tax planner in the first instance.

The problem with the amendment is that increasing the rate does not deal with the issue I have outlined. It is other parts we need to deal with if we genuinely want to tackle that and it is something we need to do. I would like to see a report on how we can ensure that high net worth individuals are paying a fair share of tax notwithstanding the general need for some of

these schemes to be in place. For example, I am not arguing that we get rid of capital allowance if carrying forward loss or investment in business. These are proper things. When one has €50 million worth of assets and one is paying less tax than somebody who works in the local hairdressers or Tesco is paying, there is something seriously wrong.

The proposal from the Deputy is not the right one. Suggesting that those in the top 10% of income earners, which would be the €90,000 bracket, would not pay USC for the income they earn up to that is not appropriate. What we need to do is to increase the taxation base overall. The revenue needs to come from those with higher incomes so we can provide additional services. The proposal is not the right one and my party would not support it, notwithstanding the fact that I recognise the Deputy has raised a genuine issue regarding how we deal with the findings of the Comptroller and Auditor General.

I agree completely with Deputy Boyd Barrett that the Minister's argument on the complexity of the tax code is not a real argument. We have argued for a third rate of tax and we will continue to do so. Ours is not a tax-neutral position because it would actually bring in more tax, with a view to ensuring we can provide decent services to deal with the issues bearing down so heavily on ordinary families. Families are at their wit's end. They are working their socks off day in, day out. At the end of the week, they simply do not have enough or anything to put by. They are struggling because of high costs, including the costs of childcare, rent, trying to get on the housing ladder, basic survival and car insurance. All these costs are bearing down heavily on people and that is why we need to raise additional income tax revenue.

I do not support the Minister's point. The complexity in the tax code does not represent a genuine argument. There are numerous rates of PRSI, for example. We are well equipped to introduce other rates of taxation if we wish. I agree that if one raises taxes to a certain level, there will be a behaviour shift. This comes down to judgment. The last thing we want to do is move income offshore. Therefore, it comes down to determining the rate. If one taxed people at 90% or 80%, of course there would be an immediate impact, but there is sufficient scope for those at the higher end to pay additional tax. When I talk about the higher end, I mean the 3% with individual incomes above €100,000.

I do not want to elaborate any further. The amendment is coming from the right place but it is completely the wrong idea to abolish the USC. The first part of this amendment is nearly identical to what Fianna Fáil proposed during the last general election campaign. It would have cost us billions of euro and we would have had a huge hole in our public finances as a result. Introducing income tax rates will not deal with the issue. While we are proposing an increase in an income tax rate, it does not deal with the issue in the report of the Comptroller and Auditor General.

Introducing an income tax rate is not the most efficient or the best way of capturing the wealth. We know the USC is better because it taxes not only PAYE income and the income of the self-employed but also other sorts of income. For these reasons, we will not be supporting the amendment.

Deputy Paschal Donohoe: Let me respond to Deputies Boyd Barrett and Pearse Doherty. A point Deputy Boyd Barrett made with which I completely agree is that we are not open to debating options. By comparison with extremes that are currently being debated, what he has put forward could be seen as the kind of conventional left-wing policy of recent years. We have been afraid to debate options. We got ourselves into a place in which a form of politics has been put forward that suggests there is no choice other than to do what we are now doing. I reject

that completely. That is the wrong way to conduct politics. Despite what the Deputy and others on the committee might feel, I am not a neoliberal. I believe in taxation. I believe tax is a contribution all of us should make to society and we should be open to having debates on that.

I differ from the Deputy on a domestic matter, which I will highlight in a moment. I will also refer to what Deputy Pearse Doherty said in this regard. A fundamental area of difference between Deputy Boyd Barrett and me concerns the behavioural piece but I believe there is a broader piece regarding the kind of economy we are in. In the period in which the Deputy anchors his argument - the so-called golden era of the post-World War 2 period - there was much lower integration of international economies with the global economy than there is now. Labour markets were far less integrated. Capital flows were far less integrated. The process of European economic integration was significantly less advanced than it is now. That is a reason the Deputy's proposition would not work for the Irish economy. The Irish economy is now operating in a completely different place than in the period to which the Deputy referred. Medium-sized companies with which I engage quickly reach a point where they want to diversify and employ people. Even for these companies, the manner in which our tax rates stack up by comparison with those elsewhere is far more important now than a number of decades ago. The notion of competitiveness, in which I anchor many of my arguments, reflects the fact that we are more integrated than we were in the past. It is just an area of difference between the two of us.

Regarding the argument I put forward, Deputies Boyd Barrett and Pearse Doherty touched on complexity. The point on complexity was the last point I made. Both Deputies are correct that the Irish public administration is capable of doing really complex things. The complexity argument was one of the latter arguments I made but it was not the key argument. The key argument I made has two policy anchors. The first is based on the fact that I do not believe it is appropriate that a large number of taxpayers make no contribution at all. Second, it is my strong view that there would be behavioural and competitiveness consequences as a result of what the Deputy is proposing that would damage our economy. It is for that key reason I do not support it but I agree with him that we should be far more willing to have a debate and not demonise views, as has happened in the past.

Deputy Richard Boyd Barrett: I apologise because I must go. I will be back.

Amendment put and declared lost.

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

Deputy Pearse Doherty: I do not agree that section 2 should stand part of the Bill. The proposal concerns the USC and the gradual reduction of the tax base. The benefit for someone on an average income would be very minor. We know when we look at the package of tax cuts that it takes €284 million out of the tax base this year. That is money that is needed to deal with the issues I raised earlier. It is needed to deal with some of the serious pressures weighing down on ordinary people. There are two ways of thinking about this. First, should we give as many people as are covered money back - in some cases €1 per week and in other cases €6 per week? Second, do we try to deal with some of the sources that are pressurising people in dealing with a more ambitious programme, such as a programme concerning childcare or basic costs, be they insurance costs or the costs of utility bills, or concerning rent relief or renters who are paying the highest rents in the history of the State? We heard this morning driving in here that a family becomes homeless every eight hours. I have a different approach. While the measure in section 2 is part of a wider package of tax proposals, the reality cannot be ignored that, in the past three budgets involving Fine Gael and Fianna Fáil, tax cuts in the order of €750 million have

been made. The reality cannot be lost that over the last three budgets between Fine Gael and Fianna Fáil €750 million of tax cuts have taken place. That is at a time when we are seeing record numbers on hospital trolleys, the highest ever numbers in the history of the State, when we have the highest number of people on waiting lists in the history of the State, when we have the highest number of families in the history of the State without a place to call home and who are in emergency accommodation, and when numerous children with special needs are waiting for a diagnosis while their parents are at their wit's end in terms of the concern that their child will not reach their full potential because they cannot get access to a service that should be available so their child's condition would be diagnosed and they would have the wraparound supports they deserve in order to meet their full potential. That is where we significantly differ on this. In the past the Minister has made arguments that the tax take is increasing, as a pot, but that was exactly the same thing that happened during the Charlie McCreevy era. We cut income tax to a point that was unsustainable and Charlie McCreevy and the PDs, who were driving that agenda at the time, were able to say that the tax take was increasing, which it was. It was increasing because we had a high level of employment but it was also because we had other sources of tax, namely, stamp duty, that provided a cushion for the public finances at that time. We are in a very similar position. What has been done in recent years is a hollowing out of the tax base, which is reducing to an unsustainable base, in my view. It is mirrored by the fact that while we are not at full employment we have a larger number of our people in employment and, therefore, the tax take is increasing, and we have corporation taxes that are at a record high, and very significantly higher than the percentage taxation take in our European competitors. There is a danger here. I sat in this room during the banking inquiry, when there were two very distinct issues. Obviously, there was the recklessness of the bankers and all of the policies that surrounded that, which we will not go into, but there was also another issue. Two crashes took place, one of which was a fiscal crash. During that period, the State and the Government reduced income taxes to a point that was unsustainable. We saw clearly what had to happen. When the tide went out, it was very clear that, as Deputy Noonan used to say, we were swimming naked. That was the problem. There is a danger here that if we continue on this trajectory, we will be in the same position. I have serious concerns in regard to what we are doing in terms of a fiscal point of view but I also believe that the tax package does not deal with the source of the pressure that is on people at this point in time. That tax is already gobbled up by increases in energy, insurance, rent, child care and all of those issues. While it might feel good for people to hear they are getting €1 or €5 back every week, depending on their income, the reality is that this time next year they are not going to feel any better because the sources of the pressure that are ensuring they are struggling to get by. I am not talking about people who are on low incomes but about teachers who are in the system for ten, 12 or 13 years, people who have two incomes coming into the house but who still feel that despite the fact they are working full-time, sometimes in the public sector and private sector combined, they are still not able to have that rainy day fund. This is the wrong approach, in my view, and that is why I oppose section 2. Despite the fact it is a very small tax giveaway, it needs to be looked at in the collective. I ask the Minister, given it did not appear in his speech, what is the current position in regard to USC. Although his party had posters about abolishing the USC, I understand that is no longer the case, and that Fianna Fáil and the Labour Party have also ditched that pre-election promise. The question is what is the current position. The latest position we had from Government was at budget time last year, when it was going to be merged with PRSI. However, we have no paper on that or no announcement on budget day as to what is happening, and all we have is, again, just a reduction of USC. Is there some long-term thinking in this regard, given there is an issue? When one looks at taxation, in particular taxation on income, where we are completely out of kilter is in regard to PRSI. That is where our rates are below

This is at a time when we see record numbers on hospital trolleys, the highest ever in the history of the State, when we have the highest number of people on waiting lists, when we have the highest number of families in emergency accommodation and without a place to call home, and when numerous children with special needs are waiting for a diagnosis while their parents are at their wit's end with concern that their child will not reach their full potential because they cannot get access to a service that should be available so their child's condition would be diagnosed and they would have the wraparound supports they deserve to meet their full potential. That is where we differ significantly on this.

In the past the Minister has made arguments that the tax take is increasing, as a pot, but that was exactly the same thing that happened during the Charlie McCreevy era. We cut income tax to a point that was unsustainable and Charlie McCreevy and the Progressive Democrats, who were driving the agenda at the time, were able to say that the tax take was increasing, which it was. It was increasing because we had a high level of employment but it was also because we had other sources of tax, for example, stamp duty, that provided a cushion for the public finances at that time. We are in a very similar position now. What has been done in recent years is a hollowing out of the tax base, which is reducing to an unsustainable base. This is mirrored by the fact that, while we are not at full employment, a larger number of our people are in employment and, therefore, the tax take is increasing, and corporation taxes are at a record high, very significantly higher than the percentage tax take in our European competitors.

There is a danger in this regard. I sat in this room during the banking inquiry, when there were two very distinct issues. Obviously, there was the recklessness of the bankers and all the policies that surrounded that, which we will not go into, but there was also another issue. Two crashes took place, one of which was a fiscal crash. During that period, the State and the Government reduced income taxes to a point that was unsustainable and we saw clearly what had to happen. When the tide went out, it was very clear that, as Deputy Noonan used to say, we were swimming naked. That was the problem. There is a danger here that if we continue on this trajectory, we will be in the same position.

While I have serious concerns about what we are doing from a fiscal point of view, I also believe the tax package does not deal with the source of the pressure that is on people at this point in time. That tax is already gobbled up by increases in the cost of energy, insurance, rent, childcare and all those issues. While it might feel good for people to hear they are getting €1 or €5 back every week, depending on their income, the reality is that, this time next year, they are not going to feel any better because the sources of the pressure that ensure they are struggling to get by will remain. I am not talking only about people on low incomes but about teachers who are in the system for ten, 12 or 13 years and people with two incomes coming into the house but who still feel that, despite the fact they are working full-time, sometimes in the public sector and private sector combined, they are still not able to have that rainy day fund. This is the wrong approach, which is why I oppose section 2.

Despite the fact this is a very small tax giveaway, it needs to be looked at in the collective. What is the current position in regard to USC, which did not appear in the Minister's speech? Although his party had posters about abolishing the USC, I understand that is no longer the case, and that Fianna Fáil and the Labour Party have also ditched that pre-election promise. The question is what is the current position. The latest position we had from Government was at budget time last year, when it was going to be merged with PRSI. However, we have had no paper on that or no announcement on budget day as to what is happening, and all we had have, again, is just a reduction of USC. Is there some long-term thinking in this regard, given

there is an issue? When one looks at taxation, in particular taxation on income, where we are completely out of kilter is in regard to PRSI, which is where our rates are below most of our European competitors. Despite this, there has been silence from Government in the past year.

Deputy Michael McGrath: Our party supports gradual reductions in the USC. Where I agree with Deputy Pearse Doherty is that the provisions in section 2 are very modest, undoubtedly, although they represent further progress in terms of the third budget under the confidence and supply agreement. We have to acknowledge the fact incomes are rising for many people and the CSO figures to the end of the second quarter of this year show incomes rose by 3.3%. If the Minister does nothing, more of people's income will move up through the USC bands and the same principle applies to income tax, so people will end up paying up more tax. That is not fair at a time when the economy is going well and while people deserve some relief, the relief here is very modest. What these changes do not do is result in more people being exempt from USC. The entry point remains the same, which is a principle we support, and the benefit of this is capped at income of €70,000.

It should be acknowledged that while the USC was a tax introduced during the emergency, it was an amalgam of the old income levy and health levy, although it was more than that and was higher than the combined effect of both of those. It is important that the burden is eased. USC is paid not just by workers but by pensioners too. This is a modest change. Where I agree with Deputy Pearse Doherty is on where the real pressures are for people, for example, cost of living expenses, principally accommodation costs. We all know the direction rents are going in and there are also mortgage costs, insurance costs, energy and utility bills, and so on. There is a need for a renewed focus on all those issues. This is a very gradual, modest change in USC, with a focus on low and middle incomes. As a party, that is something we support.

Deputy Paschal Donohoe: On a point of order, was section 1 agreed?

Acting Chairman (Deputy Peter Burke): Yes.

Deputy Paschal Donohoe: Thank you.

On section 2, I find myself facing criticism in regard to these changes from two competing schools of thought. The first would say this budget has too little in terms of tax changes and the other would say I should not do anything at all in regard to tax reduction and reform for people on low to middle incomes. I will comment on each school of thought. For those who contend I should do more and should have brought in bigger changes, we have been down that path before. We have been down the path where a massive tax change is put in place, people feel instantly better off the next day and we then find out over the passage of a number of years that it is not affordable. At other points in the economic and political cycle, what has happened is that the resources of the State have been used to put in place income tax and social welfare packages that are many multiples of what this budget has put forward. The figures that came out of the Wright report, that looked at some of the issues Deputy Pearse Doherty touched on, on the combined value of the tax and social welfare packages at comparable points in the economic cycle versus where we are now were between €1.6 billion and €2.5 billion. The combined value of the tax and social welfare packages for the last two budgets I have done, including this one, has been between €800 million and €900 million. To those who argue that I should do more, which, in fairness, nobody here has argued but which has been argued elsewhere, my response is that we have gone down that path previously, it clearly did not end well, and if one looks at where we are in terms of income growth within the economy, modest tax changes that are highly focused combined with income growth that is happening in the economy has the potential to have an

effect on people's take-home pay, and I believe that is happening. To those who would argue that I should not do anything at all, which is nearer what Deputy Pearse Doherty has advocated in terms of him not agreeing that I should have made these changes, I would say in response that if I had not made those changes I would be accused of bringing in stealth charges through the income tax code and the USC code. What is happening is that as people earn more, they are moving up through our tax brackets, particularly when they make the transition from part-time work or what had been low-income work to full-time work on a higher level of income due to wage growth that is happening in the economy. I have tried to put together a proposition that concentrates tax relief on those areas of our economy that, I believe, otherwise would face even more pressure due to incomes going up and more jobs being retained.

What I have done is very different from what happened previously in two respects. First, none of the changes I made has influenced the thresholds of USC, income tax and PRSI and the entry point into each of those three collection systems is unchanged. Any of the changes I made will not result in fewer people paying tax, which is what happened in the past during this point in the economic cycle. I have ensured that the entry points into those three different codes are unchanged.

Second, as we have gone through this period in the economic cycle, I have removed tax changes that happened elsewhere with exactly the view of broadening the tax base. This is why I made changes last year in stamp duty and the VAT rate. These are the kind of changes that at other points in our recent economy history did not happen where reliefs were brought in and were left in place and when the economy started to do well again, they were not reversed and we ended up with an impaired tax base. As I understand it, Deputy Pearse Doherty wants to abolish the local property tax, which many would argue is one of the most conventional ways of broadening the tax base.

For all those reasons, I would reject entirely the view that anything I am doing here is consistent with what has happened in the past. The combined value of the income tax changes reflects the fact that we have an economy that, from an income point of view, for many although not for all, is doing well to okay.

In terms of the other pressures Deputies have touched on which I acknowledge are having a big effect on people's living standards, for instance, childcare, that is the reason we made the second year of progress in the affordable childcare scheme. I note the Minister of State, Deputy D'Arcy, has been in front of this committee on a number of occasions outlining the work of the Government on insurance and there is some evidence, at least in relation to medical premia, that progress has been made in terms of them stabilising. I hope in time we will see further changes there. I am as aware as any Deputy around the table of the effect of rent costs on people's living standards. We have brought in rent pressure zones to deal with this issue. More needs to be done in this area. This is why we have put in place measures to increase the supply of rental accommodation as well.

Deputy Pearse Doherty: The points I make here are identical to those I would make in opposition to section 3 and I will not repeat them. Both relate to the tax package. While acknowledged that the tax package in the context of the overall budget is not huge, we are in a position where we still do not have a balanced budget and we need to look at what are the resources. The Minister compared the McCreevy budgets with the budgets he delivered over the past two years. It is like comparing apples and oranges given that Mr. McCreevy was running quite large surpluses and under the fiscal rules we must achieve a structural balance, etc. Even within those constraints, over the past three years there has been €0.75 billion of tax cuts. I would argue that

is not the most efficient or best way to deal with the problems people have at present. Median disposal wages has increased by 8% since 2012 and yet, according to Daft, rents have increased by 60% and house prices have increased by 40% in the same period.

The Minister spoke of insurance. The Minister of State, Deputy D'Arcy's reports are not going anywhere. I was talking to a businessperson who employs local people in a rural part of the country whose insurance premium was €32,000 three years ago and is over €120,000 now. Others, who are in the haulage sector, talked about a loading which has been put onto them because of accidents that are being contested, and even after these are successfully contested the loading is still put on them. It is a rigged system. It is not only pressurising individual consumers in terms of car insurance but it is also a serious challenge, particularly small and medium-sized businesses throughout the country. There is no light at the end of the tunnel unless the Minister wants to show the reports, which are not going anywhere. That is the reality.

We still do not have a fraud unit in the Garda. We all agree fraudulent claims need to be prosecuted but we still do not have a unit. These are some of the basic solutions that could be applied. One of the bright ideas from the Minister for Housing, Planning and Local Government, Deputy Eoghan Murphy, when he was Minister of State, was that the industry should fund the fraud squad. The Minister of State, Deputy D'Arcy, does not agree with that. The State should fund a fraud squad on insurance. That would be one of the better ways to spend some of the money.

The Minister, Deputy Donohoe, talked about childcare. The childcare package here has already been gobbled up in increases. The problem is it is not sufficient or ambitious enough to deal with the pressures that people are feeling today.

There is a risk, when one looks at this package collectively. There is a risk that the tide may go out and we will be left exposed because we have reduced taxation to a point. What is missing from all this is an indication from us, as a finance committee, of where this is going. That is the point I made earlier to the Minister which we still do not have any answers to. If we continue to go through Finance Bills, one after another, which continue in the same trajectory of reducing personal income taxes to a point at which, I believe, they will become unsustainable, we will be at a serious danger point. There is no indication. In fairness to Fianna Fáil, it is clear it wants to continuously reduce the USC. It is aligned with its policy of abolishing USC up to a certain point. However, we do not know where the Government stands. Is this merely another part? Will next year see more so that in a couple of years' time, we will see that it is not €0.75 billion but €2 billion that we will have taken out of personal tax? That is not sustainable. It is also not the right course of action.

I raised the following question, which the Minister did not reference. What is happening with USC? Will he continue to reduce it or is it being merged with PRSI, and when are we likely to see any paper on a policy proposal that was announced over a year ago?

Deputy Paschal Donohoe: I will respond to the two points the Deputy has put to me. He has said that to compare this budget with the budgets introduced by the former Minister, Charlie McCreevy, is to compare oranges with apples.

Deputy Pearse Doherty: I was referring to the difference in the surplus and the deficit.

Deputy Paschal Donohoe: On many occasions, the Deputy has made a charge against me by comparing what I am doing to what happened in Mr. McCreevy's era. He has said that the

effect of my budgets and policies is the same as the effect of what happened in the period in question. Deputy Doherty has made that charge against me previously. I appreciate that he is now acknowledging that there are significant differences. On the question of any future imbalances we might create, I would like to go back to a point I have made previously. As I understand it, the Deputy is in favour of the abolition of the local property tax. In the past, the Deputy has quoted many commentators and economists who would consider the local property tax to be an example of the kind of tax broadening we need to facilitate. I understand the Deputy is also saying we should borrow more.

Deputy Pearse Doherty: I am talking about €200 million, or 0.1%.

Deputy Paschal Donohoe: I ask the Deputy to allow me to put my points to him. I am very happy to debate them with him. The Deputy is happy to advocate that more borrowing should take place. Others, including those who advise the Government, are saying that at this point in the economic cycle we should be looking to reduce borrowing rather than add to it. I am saying all of this in response to the Deputy's point about how what we are doing compares with what was done in the past. He mentioned that the combined impact of recent tax changes has been between €700 million and €800 million. We went through a cycle in which tax changes of between €700 million and €800 million were made in a single budget. That is not what is happening here. My objective is that the combined effect of the various budgets I am introducing will deliver a cumulative effect that helps people in our society and our economy. The combined impact of the move in the standard rate cut-off point across two budgets has been €1,500. That kind of contribution can make a difference to people on the relevant income levels. There is ongoing work on the objective of integrating the USC and PRSI. I want to ensure any paper I publish sets out various options for doing this. I am working on that at the moment. We have to look at some key issues. Under the current USC and PRSI regime, different kinds of incomes are taxed differently and people are taxed differently at different stages of their life cycles. We are analysing such issues at the moment.

Deputy Paul Murphy: I do not agree with Deputy Doherty on this one. It seems from the points he made about Deputy Boyd Barrett's amendment that Sinn Féin is falling into a bit of a trap that has been set by the Government and by right-wing commentators. It is playing into the idea that those who are seen as left-wing and progressive stand for substantial rates of taxation on middle-income earners. The point we should be getting at is that the big income is in the top 3%, the top 10% or the corporations. That is where the money is there to be raised. It is important from the point of view of solidarity to be with workers who understandably hate the USC, hate the context in which it was introduced - it was supposed to be an emergency measure - and want to see it abolished. Obviously, this section of the Bill is completely inadequate. We could oppose it on the basis that it should go much further and should involve the abolition of the USC, but we are in favour of it on the basis that it is a tiny step in the right direction. The problem is that the measures with which it is combined do not do the things we think they should do. I understand the point that is made in response, which is that the USC is a particularly good way of capturing income. While I accept that, I suggest that the alternative is to use the USC model to provide for a social charge that kicks in above a high level of income, as opposed to a universal social charge.

Deputy Pearse Doherty: I would like to make a couple of final points about this section of the Bill. We are dealing with where we are now. That is the context in which we have to judge this legislation. I agree with Deputy Paul Murphy. It can be seen in our alternative budget that we have advocated for additional taxation from higher incomes. We want a real property tax

that is not just a tax on family homes. A real property tax would start to deal with the issue that was raised by Deputy Boyd Barrett earlier. It would be a wealth tax that would deal with different forms of assets and not just the family home. I want to make it clear that the tax which is proposed in the legislation we have published would include property and homes. We want to abolish the family home tax, which is paid by many people who are in negative equity and have serious debt as a result of having property, and replace it with a real net wealth tax.

The Minister picked up on what I said about apples and oranges. My point is that the things he is doing are the same as, or similar to, those that were done by Charlie McCreevy some years ago. The difference is that he was doing it at a time of surplus. Therefore, his giveaways were bigger than those of this Government, which is operating at a time of deficit. That is the context in which I spoke about apples and oranges. At least the Minister understands that he is following the same trajectory as Mr. McCreevy, albeit at a different scale because of the restrictions we face at present.

The Minister knows that it is not inappropriate to borrow to service a country, as long as that borrowing is not above a certain level. Under the European fiscal rules, a balanced budget is a budget with a structural balance of 0.5%. This recognises that a balanced budget is not a balanced budget as one might have in a household, where income must balance with expenditure. I know why the Minister has made his remarks about borrowing. It is an easy giveaway. He developed or designed a budget that was based on a 0.1% deficit. Our alternative proposal, which met the structural deficit requirement, involved an Exchequer deficit of 0.2%. In light of where we are at in the context of the information that came with the White Paper, questions can be asked about whether there will be any deficit under the Government's budget next year. It is likely that it will be in surplus. Similarly, if we were to implement our proposals, it would be in surplus as well. Extra money has become available which was not available to the Opposition when we were designing our alternative budget. The actual reality is that when we had the figures at the time, we thought that our alternative budget, on which we engaged with the fiscal advisory council, would involve a deficit of 0.2%. In light of the announcement in the White Paper, it is likely that neither the Government's budget nor our alternative budget would require borrowing next year. That is the reality.

When the Taoiseach was seeking to be elected as leader of the Fine Gael Party early last year, he announced that PRSI reform would be one of his election proposals. This means that we are a year and a half into the process. However, we do not yet have an indication of what will be done. I understand that it is deeply complex to get one's head around PRSI. It is challenging to merge the USC, which is simpler, with PRSI, but I do not think it is so challenging that it should take a year or a year and a half. I do not think it is so challenging that we cannot be given an indication of when we will see where it is going. The point I am making is underpinned by the requirement on us to deal with taxation not in a piecemeal fashion but along a wider trajectory. We need to know where we think taxation should be in five years. The committee might not agree on this matter, but it is important to understand the need to consider it. The point I made earlier was that if the €300 million reduction in the USC and in income tax this year is followed by a €400 million reduction next year and so on, an extra €5 billion will be taken out over the next five years. Maybe something different is planned. The idea that we should proceed year by year, depending on the resources that are available to us or the political or fiscal pressures we are facing at the time, is the wrong approach. We should have a long-term, collective view if possible. It is important that the Government states its view as to where this is heading. This is where we are completely in the dark. We need a statement from the Minister in this regard. While he does not have the paper and he wants to ensure that all the figures are accurate and so

on, we also need to get an indication of whether we are going to see it this year. Will we see it next year? Will it be in the first quarter or the fourth quarter? Is it going to be in the budget next year? Is there any indication of when we are going to see some type of proposal? This is a complex matter and it needs to be teased out. It should be teased out over a sufficient period and, as the Minister stated in his very welcome opening comments, with all relevant opinions obtained. Such opinions should be shared and we should get this right. We may disagree at the end of the day but we have all raised valid points.

Deputy Paschal Donohoe: In all my engagements with Deputies in recent years, I have never questioned their intent or why they raise views. I have always accepted the validity of other parties and the views they put forward. I have also always been very clear in spelling out that some of what has been advocated would be very dangerous for the economy and our society. I am aware that some of this will continue into section 3 and I am conscious of how we are managing our time. We can pick up some of these matters then.

With regard to the timing for me publishing a paper, or the options for USC and PRSI, the issue I have to deal with is that the amalgamation of all of this affects 2.5 million different income earners and €7 billion worth of income. There are a number of options being developed by my Department in respect of doing it. I expect it would probably take me the rest of this year to complete this work and to evaluate it before I come forward with some options. When the debate on this Finance Bill is concluded is the point at which I will put forward some options on it.

Question put and declared carried.

SECTION 3

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

Deputy Paschal Donohoe: Section 3 gives effect to the changes I outlined in respect of section 2 regarding the standard rate cut-off point for income tax.

Question put and agreed to.

SECTION 4

Question proposed: “That section 4 stand part of the Bill.”

Deputy Paschal Donohoe: Section 4 provides for changes in the earned income tax credit. As I meant to say in my budget day speech, the value of the credit will be increased from its current level of €1,150 to €1,350. This has a full year cost of €48 million. It is expected that the increase will benefit some 230,000 taxpayers in 2019.

Deputy Pearse Doherty: I welcome the increase in the self-employed tax credit. I made the point last year, however, that I believe the process should have been finished last year. It should have gone up to €1,650 and I definitely expected it to go up to €1,650 this year. That was achievable. Can the Minister give the committee his view on it if he is still the Minister for Finance this time next year?

Deputy Paschal Donohoe: That I will do what?

Deputy Pearse Doherty: What is the Minister laughing at? Is he laughing because I asked his view or inquired whether he will still be Minister for Finance this time next year?

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Deputy Paschal Donohoe: I could see all kinds of traps and pitfalls being created by answering the Deputy's question.

Deputy Pearse Doherty: I would never do that. Is it the Minister's intention to bring full equalisation in next year's finance Bill?

Deputy Paschal Donohoe: There are many bridges to be crossed before I get to budget 2020. All my energy is still on budget 2019 at the moment. I will, however, add another caveat in that it depends on the resources available to me. If resources are available to me next year in the way they have been over this year it would be my intention to complete the journey in respect of the earned income tax credit. It depends on available resources, and I never take for granted my ability to continue in this office.

Deputy Pearse Doherty: That is very wise.

Question put and agreed to.

SECTION 5

Question proposed: "That section 5 stand part of the Bill."

Deputy Paschal Donohoe: This section amends section 466(2)(a) of the Taxes Consolidation Act 1997, which provides for the home carer tax credit. As I announced in my budget speech, the value of the credit will be increased from its current level of €1,200 to €1,500, at an estimated full-year cost of €24 million. This increase will assist married couples or civil partners where one spouse or partner works primarily in the home to care for children or an elderly or incapacitated relative. In 2016, this credit was of benefit to almost 86,000 families.

Question put and agreed to.

NEW SECTION

Deputy Michael McGrath: I move amendment No. 2:

In page 9, between lines 11 and 12, to insert the following:

"Report on people who are eligible for Home Carer Tax Credit

6. The Minister shall, within 3 months of the passing of this Act, prepare and lay before the Oireachtas a report on the proportion of people who are eligible for Home Carer Tax Credit but who are not in receipt of such a credit and ways in which the take up of the credit can be improved."

This amendment relates to the home carer tax credit, to which the Minister just referred. I wish to raise the question of whether there is an under-claiming of that credit. I have raised this issue in the past by means of parliamentary questions to the Minister and with Revenue. The reply has been along the lines that Revenue provides this credit automatically where it has sufficient information to do so. When one considers the overall figures, however, the number of people who claimed the credit last year was just under 86,000 families but the CSO data around the number of family units where one parent is staying at home to care for children is in the region of 147,000 families. I am aware that we cannot compare them directly because we do not know the income of those 147,000 families, one does not know if there is a tax liability that can be sheltered by the home carer tax credit, and low income families may

not have sufficient income to generate a tax bill that could be sheltered by this credit. From dealing with this issue in my area and from the queries raised with me, I get the sense that there are people who are entitled to this credit who are not claiming it. They are not claiming it because they are not aware of it. There are cases where the tax credit is not being automatically granted where those people are entitled to it. This is the purpose of raising the issue; to try to establish if more could be done by Revenue to give the credit automatically where people are entitled to it, and whether to raise awareness of the existence of this credit.

I welcome the increase in the credit to €1,500. A €300 increase is significant and very welcome. For families that are more or less dependent on one income, it is of significant benefit.

Deputy Paschal Donohoe: The amendment would provide for a report to be laid on the proportion of people who are eligible for the home carer's tax credit, but who are not in receipt of the credit and ways in which the take-up of the credit can be improved. I do not believe that the compiling of such a report is necessary and I also do not believe that the take-up of the tax credit is low. For 2016, the most recent year for which data is available, 85,900 taxpayers received either the full credit or the partial credit at a cost of €78 million. I am aware of media reports about the home carer's tax credit and the suggestion that a large number of families do not avail of it. I would point out, however, that 85,900 is the estimated number of people who would benefit from the increase. This contrasts with data from Revenue that indicate some 131,000 families claimed the credit in 2016. As a result, it is not accurate to suggest that people are not aware of their entitlements. There are genuine reasons that people may not have been able to use the credit. It could, for example, be the case that potential claimants' entitlements to other tax credits were sufficient to reduce their tax liability to nil without the need to avail of the home carer tax credit. It is very likely that that is the key reason there is a gap between the CSO figures to which Deputy Michael McGrath referred and the figures I am sharing here.

Revenue estimates that the number of claimants in this position was 47,000 in 2014, 44,000 in 2015 and 45,000 in 2016. Furthermore, in some circumstances, it may be more beneficial for a family to claim the increased standard rate band for two income families which is an alternative to the home carer credit. The administration of the tax code is a matter for Revenue but I have been advised that the Revenue contacts PAYE taxpayers to remind them that there is a four year time limit for claiming additional tax credits and reliefs.

For example, in late 2017, letters issued to all PAYE taxpayers who had not claimed additional credits or reliefs from 2013 to 2017, reminding them that they may be entitled to make a claim on or before 31 December 2017. An additional 291 claims were made for the home carer tax credit following the issue of this letter. Similar letters will issue this year.

Furthermore, the Revenue prepopulates the annual tax returns of self-assessed taxpayers with the home carer tax credit where it was claimed in the previous years. Revenue also automatically grants the home carer tax credit where it identifies eligible persons whose circumstances indicate that they would benefit from the credit.

Regarding the substantial €300 increase in the home carer tax credit I announced in budget 2019, this information is included in Revenue's summary budget leaflet, published on its website, and it was announced in the Government's highly publicised Budget Statement, as it has been for the past four budgets.

For these reasons, I am satisfied that everything has already been done to ensure that everyone gets the full value of his or her tax entitlement and I do not see the need to carry out a report, as the Deputy has suggested. I have agreed that my officials would carry out a report

into the home carer's credit as part of the upcoming early year strategy that will be launched by my colleague, the Minister for Children and Youth affairs, Deputy Zappone. The purpose of this review is to undertake research and analyse the utilisation and effectiveness of the home carer tax credit scheme, in line with tax expenditure guidelines. For the reasons I have already outlined, I, therefore, believe this report and this process will deal with issues in relation to the administration of the credit and I do not believe at this stage that a further report is needed.

Deputy Michael McGrath: In 2016 more than 130,000 families would have claimed the credit but just under 86,000 families were in a position to benefit from it. Is that correct?

Deputy Paschal Donohoe: Yes.

Deputy Michael McGrath: The main explanation the Minister is offering for what might appear to be a discrepancy in the numbers is that people were not in a position to benefit from it for different reasons, one being they may not have had a tax bill that required an offset by a credit. That is a point I mentioned in my introductory remarks.

What I want to do is to encourage Revenue to continue to highlight this credit and to provide it automatically where people are entitled to it and to explore if there is more that can be done in that area. An issue sometimes arises where one spouse is out of work for part or most of a calendar year and is on illness benefit, carer's benefit or on maternity leave. This is where a person in the normal course of events is working full-time but the family is not in a position to benefit because for one year its income is much-reduced as someone is out of work for one reason or another. In those cases people can miss out on it. The more we talk about it, the more we raise awareness of it and the more people who are entitled to it will claim it.

Deputy Pearse Doherty: On the point Deputy Michael McGrath has raised, there is also a wider issue in terms of the awareness of people of certain tax reliefs that are available to them and what can be done to promote awareness among people. One will find quite frequently that people are unaware that they can claim back medical expenses. Unfortunately we are not having a debate on relief on trade union subscriptions here but when one looked at the data on trade union membership and those claiming the relief when it applied, there was quite a significant mismatch there. This was also the case when other reliefs were applied. One will see that some third level institutions are raising awareness among their students in relation to the availability of tax reliefs for student fees. When there is a second student in a family who would be paying student fees, that student can claim tax relief on that. The assertion is being made that families are unaware of this and are missing out on a significant amount of relief.

There is a broader question, notwithstanding Deputy Michael McGrath's specific issue on this particular relief, as to how there can be a greater awareness among people of the range of reliefs available. I am aware that is difficult because not every household has a student or a home carer and there is quite a large number of reliefs. We need to examine a better and a consumer-friendly way to inform people of the reliefs. Families may be missing out on the support they could be availing of.

Deputy Paschal Donohoe: I thank the Deputies and I will deal with the different points put to me. The short answer to Deputy Michael McGrath's first question is "Yes". We believe the key reason here for the gaps in the different figures put forward is the fact that the tax circumstances of those who would be able to claim the relief means that the actual value of them getting the relief is nil. To put some more flesh on this, the CSO figure of 147,000 that is quoted does not necessarily reflect the credit recipients. The credit is available only to married couples

and civil partners who are jointly assessed for tax. The 85,000 figure used by the Department of Finance is the estimated number of people who will benefit from the budget 2019 increases. However, data from Revenue indicate that 125,000 families claimed the credit. They just did not all benefit from the credit. The reason for that is that the family income may be insufficient to absorb the credit, or it may be due to one of the reasons Deputy McGrath put forward or, indeed, it might be more beneficial for them to claim the increased standard rate band for two income families. There are two different reasons.

On the different points Deputies Michael McGrath and Pearse Doherty put to me and where we are on the different entitlements that are available, on 1 November the Revenue Commissioner issued a press release explaining to citizens all the different allowances available to them and reminding them there is a four year time limit in place by which they can claim such refunds. The deadline for 2014 claims is 31 December of this year. The potential is still there for citizens to claim that which they are entitled to. What is now going to happen is that the Revenue Commissioner will write to all taxpayers who have not claimed any reliefs at all over the last four years.

Deputy Pearse Doherty: Is that over the last four years?

Deputy Paschal Donohoe: Four years. I hope that as a result of this communication and the debate on this matter attention will be drawn to it.

Deputy Pearse Doherty: It is welcome that the Revenue Commissioner is going to write to individuals who have not claimed but that narrows it down quite significantly. People may have claimed for certain reliefs but are not aware of other reliefs that they could claim. Some of the reliefs are more known than others. The press release is important but the unfortunate reality is that we do not know how many people heard it or read it.

Last week there was a moneylender at my door handing out leaflets telling me exactly how much I could get. I do not refer to individuals. However, moneylenders and such institutions are parasites in terms of trying to get people to sign up to high interest loans while under pressure coming up to Christmas. That is the most direct message.

Revenue regularly sends information to taxpayers relating to their tax credits. It would be worthwhile to include the information contained in the press release - which I did not see - with that documentation. Every year, sometimes on multiple occasions, information is sent to taxpayers relating to the standard rate cut-off threshold and so on. It would be efficient and cost-effective in terms of postage and so on to include the list of tax reliefs with that documentation.

Amendment, by leave, withdrawn.

SECTION 6

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

Acting Chairman (Deputy Peter Burke): Is section 6 agreed? I ask the Minister to address section 7.

Deputy Paschal Donohoe: This section amends section 191 of the Taxes Consolidation Act of 1997 which provides for an exemption from tax for payments made by the hepatitis C tribunal to individuals who were infected with hepatitis C or HIV by contaminated blood products. This amendment extends the exemption to include recurring payments made by compa-

rable overseas schemes which would otherwise fall within the charge to tax to come within the scope of the exemption. It is a small change to ensure that current Irish recipients who were compensated by public schemes as a result of illnesses acquired due to infected blood products in the EU or EEA are treated the same for tax purposes as if-----

Acting Chairman (Deputy Peter Burke): To clarify, we are dealing with section 7.

Deputy Pearse Doherty: No, section 6.

Deputy Paschal Donohoe: No, we are on section 6.

Acting Chairman (Deputy Peter Burke): We have agreed section 6.

Deputy Pearse Doherty: No, we agreed that amendment No. 2 would be withdrawn.

Acting Chairman (Deputy Peter Burke): I then asked if section 6 was agreed.

Deputy Pearse Doherty: It is worth having the Minister's comments on section 6 on the record.

Acting Chairman (Deputy Peter Burke): The Minister should continue.

Deputy Paschal Donohoe: This is an amendment to section 6 which I ought to have dealt with first.

Acting Chairman (Deputy Peter Burke): We dealt with amendment No. 2 and then moved to section 6. I asked if any member wished to contribute on the section but none did.

Deputy Pearse Doherty: I ask that we be allowed speak to the section.

Acting Chairman (Deputy Peter Burke): Okay.

Deputy Paschal Donohoe: I do not expect a large number of people to benefit from the provisions of section 6. In the course of my preparation for the Bill I was made aware that a small number of people who are claiming much deserved compensation and supports from schemes in other EU member states could be treated differently from citizens who are receiving similar supports from the Irish scheme and I wish to eliminate that anomaly.

Deputy Pearse Doherty: Is this an emerging development or has it existed in other member states for a considerable period of time? Is the section prompted by a scandal that is about to break?

Deputy Alan Farrell: What is the expected outlay? Is the section intended to ensure that EU citizens are covered under the scheme?

Deputy Paschal Donohoe: We expect the outlay to be minimal. It is an issue of principle. I do not want a person who went through a very traumatic experience to be treated differently from citizens receiving similar supports under the State scheme.

I am not aware of this being a trend or growing issue as suggested by Deputy Doherty. We became aware of the issue this year. I have no reason to think that the take-up will be any bigger next year or thereafter. On a point of principle, it is important to deal with the issue now that we are aware of it.

Question put and agreed to.

SECTION 7

Question proposed: "That section 7 stand part of the Bill."

Deputy Paschal Donohoe: I will now address the amendment to section 7.

Acting Chairman (Deputy Peter Burke): There is no amendment to section 7. The Minister may speak to the section.

Deputy Paschal Donohoe: That is fine. The single affordable childcare scheme was introduced in budget 2017 and is due to come into operation in budget 2019. This necessary legislation was passed by the Oireachtas in July of this year. The scheme will provide for a graduated State contribution towards crèche fees depending on the income of the families involved, which will be assessed by means testing. In addition, a limited universal State contribution will be made available to those who do not qualify under the means assessment. For those who qualify for the means-tested element, the State contribution may be as much as €6 per hour of childcare at participating crèches. The universal element will amount to a State contribution of 50 cent per hour of childcare at participating crèches in respect of children under the age of three.

In the absence of any relieving legislative provisions, certain payments made under the Act would fall to be taxable as they are made on behalf of parents or guardians as a contribution towards crèche fees. In order to avoid this, section 7 inserts a new section 194AA into the Taxes Consolidation Act of 1997 to provide an exemption from income tax for parents in regard to certain payments made by or on behalf of the Department of Children and Youth Affairs. In addition to payments under the single affordable childcare scheme, payments under the following existing schemes are to be exempted: the community childcare subvention, community childcare subvention plus, community childcare subvention resettlement, the transitional payment for the community childcare subvention resettlement scheme, community childcare subvention universal and the training and employment childcare scheme. The section also provides that payments made under the forthcoming affordable childcare scheme will be exempt from income tax in the hands of the parents.

Deputy Pearse Doherty: Obviously, these payments should be exempt from tax. I assumed that they were. The universal section of the community childcare subvention commenced last September. Was a tax liability imposed on any taxpayer in that regard? Is there an issue of tax being claimed back? If there was not, is the legislation retrospective? Does it apply from now onwards? Is it retrospective in respect of all of the schemes outlined by the Minister? Some of the schemes have not commenced. I understand from the Minister that it will apply retrospectively to all of the schemes.

Deputy Paschal Donohoe: No tax liability has been generated under the schemes. The section will have a retrospective effect as no tax liability was generated.

Deputy Pearse Doherty: A tax liability was generated. I presume it was not charged.

Deputy Paschal Donohoe: Yes, it was not charged. The section will apply retrospectively to the schemes.

Deputy Alan Farrell: My principal reason for attending is because, as Chair of the Committee on Children and Youth Affairs, I welcome this section as part of the overall Government strategy on the provision of supports to childcare service providers and the users of such services - children and their parents. Clearly, the clarification provided by the Minister to some

extent negates my reason for contributing, which was to inquire as to whether there would be any tax liability for the payments that have been made since the end of last year. Is it the Minister's intention, in conjunction with his colleague, the Minister for Children and Youth Affairs, Deputy Zappone, to vary what is likely to become the Finance Act over the coming 12 months to make provision for the affordable childcare scheme when it is introduced? As the Minister is probably aware, the computer system being created between the Department of Children and Youth Affairs and the Department of Employment Affairs and Social Protection is due to go online next year. The ambition is to have it up and running before October. Is the Department of Finance aware whether that will require any additional changes or is it confident that the measures being introduced in the Bill will be sufficient to cater for any future targeted payments by the Government and the Department of Children and Youth Affairs to children and service providers?

Deputy Paschal Donohoe: As long as the payments that are being made come under the provisions of the existing childcare legislation, the provisions we have made in the Finance Bill will be sufficient to deal with that. The affordable childcare legislation lays out a set of different payments and the Finance Bill puts in place the principles of how we will deal with those. The short answer to the question, as things stand, is "Yes". To bring to life the number of children this will affect, the number of children now registered in the universal scheme is 45,833. The number registered in the subvention plus scheme is 29,000 and the number registered in the core childcare subvention scheme is 17,959. We have the bones of 90,000 children already registered in these schemes. As long as the future development of the scheme is consistent with the legislation now in place for the childcare scheme, the Finance Bill will interact with it.

Section 7 agreed to.

SECTION 8

Deputy Paschal Donohoe: I move amendment No. 3:

In page 11, line 3, to delete "Notwithstanding" and substitute "(1) Notwithstanding".

This section inserts a new section 120(b) into the Taxes Consolidation Act 1997 to provide an exemption from benefit-in-kind for living-in accommodation and certain healthcare expenses incurred by or on behalf of the Minister for Defence in relation to members of the Permanent Defence Forces. In 2017, I directed that a working group be established to examine benefit-in-kind issues identified in payments of the Defence Forces. This group comprised representatives from the Departments of Finance, Public Expenditure and Reform and Defence. The Revenue Commissioners provided advice on technical taxation matters. The group completed its work and recommended that an exemption from benefit-in-kind should be provided for living-in accommodation and certain medical treatment provided to members of the Permanent Defence Forces. Due to the nature of their work, members are required to be physically fit and in a position to discharge their duties. They are required to undergo medical checks and to use the authorised medical service provided such that it is considered an offence under military law to refuse health treatment. As such, it is not therefore unreasonable to provide an exemption from benefit-in-kind on such costs in a similar manner to that provided in the UK and other countries. On living-in accommodation, it is policy that Defence Force members are accommodated in barracks to be available to be mobilised at short notice in the event of an emergency arising. This accommodation is also used when training courses are being undertaken. The charges levied are modest due to the basic and frugal nature of the accommodation and, therefore, I believe it is justified that an exemption from benefit-in-kind is provided

in respect of such accommodation.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 4:

In page 11, to delete lines 9 to 11 and substitute the following:

“(b) in or in connection with the provision of health care to a member of the Permanent Defence Force.

(2) In this section—

‘health care’ means prevention, diagnosis, alleviation or treatment of an ailment, injury, infirmity, defect or disability, and includes care

received by a woman in respect of a pregnancy, but does not include—

(a) routine ophthalmic treatment, or

(b) cosmetic surgery or similar procedures, unless the surgery or procedure is necessary to ameliorate a physical deformity arising

from, or directly related to, a congenital abnormality, a personal injury or a disfiguring disease;

‘routine ophthalmic treatment’ means the provision and repairing of spectacles or contact lenses.”.”.

Amendment agreed to.

Section 8, as amended, agreed to.

Sitting suspended at 11.15 a.m. and resumed at 11.30 a.m.

SECTION 9

Acting Chairman (Deputy Peter Burke): Amendments No. 5 to 15, inclusive, are related and may be discussed together by agreement.

Deputy Michael McGrath: I move amendment No. 5:

In page 11, line 19, to delete “31 December 2018,” and substitute “31 December 2019,”.

I would also like to move Deputy Eamon Ryan’s amendments, which I believe are in the same grouping, but I cannot. It is the same net issue anyway, which I will cut to . In last year’s budget, the Minister introduced a benefit-in-kind, BIK, exemption in respect of the treatment of electric vehicles provided by companies - company vehicles. That was welcome. It was a progressive measure which was well received. He gave clarity at the time that it was his intention that the zero-rate relief, while initially being introduced in the Finance Act 2017 for a one-year period, would remain in place for a minimum of three to five years.

He has clarified the position in this Bill. The relief will now be in effect until the end of 2021, but he is imposing a €50,000 cap on the exemption. There will not be much sympathy for people with expensive company vehicles, but there is an issue of equity in this regard. I do not know how many companies purchased a vehicle at a cost greater than €50,000 and provided

it to an employee in 2018 but perhaps the Minister has the data at his disposal. There is a retrospective element to his proposal, which is unfair. If one wanted to put that cap in place for purchases from this point forward, that would be a different matter, but as we go through debate, the Minister will make the argument on other matters that we should not seek to change the system retrospectively in respect of onshoring and so on. He will argue that people onshored intellectual property based on a certain regime and that we should not seek to change that retrospectively. I imagine a small number of companies purchased these vehicles, which are expensive, under the regime as announced but now the Minister proposes to change it. I ask him to reconsider that net point in respect of vehicles provided during 2018.

Deputy Paschal Donohoe: I will address amendments No. 5 to 15, inclusive, together. I extended the BIK exemption for electric vehicles until 31 December 2021 to support policies to reduce carbon emissions in the transport sector. This forms part of a broader series of measures to support the uptake of electric vehicles which includes vehicle registration tax, VRT, relief of up to €5,000; a Sustainable Energy Authority of Ireland, SEAI, grant of up to €5,000; low motor tax of €120 per annum; a 50% discount on toll fees; and 0% benefit-in-kind on electric charging. Having regard to value for money and tax equity considerations, a cap of €50,000 on this exemption is applied such that an electric vehicle with an original market value exceeding €50,000 will be subject to the standard rate of BIK on the amount in excess of €50,000. I contend that this is a reasonable threshold.

At the marginal tax rate, this could provide a large tax expenditure of up to €7,800 per annum to the person driving an electric car valued at €50,000. While there is no breakdown of BIK vehicle data available, the Department, through Revenue VRT and SEAI data, estimates that the vast majority of persons availing of the BIK will not be affected, or the effect will be marginal. Without a cap, the quantum of an annual tax expenditure to a person driving an electric vehicle valued at €150,000 could be of the order of €23,400. Over three years, the tax expenditure to the person driving that vehicle worth €150,000 would be more than €70,000.

With regard to Deputy Ryan's amendment, vehicle BIK is chargeable where, by reason of employment, a vehicle is made available to an employee and is available either for that individual's personal, private use or for that of his or her family or household. The charge is applied for every tax year during which the vehicle is made available and does not consider when the vehicle was first made available. The cap will, therefore, apply to all electric vans and cars made available to employees in the tax years, 2019 to 2021, where the original market value of the vehicle exceeded €50,000.

Deputy McGrath's amendment seeks to postpone for one year the introduction of the €50,000 cap on the BIK exemption. The introduction of this cap is based on applying value for money and tax equity considerations. Without a cap, the tax expenditure of the employee driving the high-end vehicle, the value of which could be in excess of €150,000, would be several times greater than the home insulation grant to low-income households under the SEAI better energy warmer homes scheme while the benefit of such grants lasts for many years. It could also be many times greater than the annual allowance for low-income households under the national fuel allowance scheme. In addition, the total tax expenditure for an electric vehicle with an original market value of €150,000 without the application of the cap would equate to relief for at least four times the value of the most popular electric vehicles on the market.

Regarding the report requested by the Deputy, I am satisfied that officials from my Department keep tax expenditure under continuous review. The BIK exemption for electric vehicles was examined in the Department's tax strategy group papers which, as the Deputy will be

aware, were published earlier this year. I appreciate that some Deputies have raised the review of tax reliefs in a value for money context. It is with similar considerations in mind that I have introduced this €50,000 cap. With that rationale in mind, these amendments are not needed.

Deputy Michael McGrath: I thank the Minister. I do not argue with the application or principle of a cap but he is moving the goalposts for people who are availing of the exemption arising from the announcement in last year's budget and the provisions of the Finance Act 2017. I recall the discussion well. The Minister gave an assurance that the exemption generally would be there for a period of three to five years. The Minister wanted to legislate for just one year because he wanted to conduct a review. A number of members would have made the point that companies investing in a company car need to have greater certainty and need a longer time horizon in mind when making that decision.

Some people have availed of this exemption during the course of 2018 on the basis of what was said and what was promised. The Minister is shifting the goal posts. It would be damaging to people's confidence in new incentives in the area of climate change the Minister might be announcing if he changes the goal posts for those who have already completed a transaction. I do not have an issue with the Minister applying the cap for vehicles purchased from now on, however, for the small number who bought electric vehicles under the regime announced and enacted last year, the goal posts are being changed. I ask the Minister to consider this point. I do not expect an answer here and now but I think the Minister should reflect on it.

Deputy Paschal Donohoe: I will ask my officials to see if they can identify how many individuals have been affected by this. When I get that information I will share it with the committee and I will see whether that provides any reason to assess what I am doing.

Deputy Eamon Ryan: I apologise for being late, but may I contribute, as my amendments are being discussed?

By way of background, the number who bought electric vehicles is low. There is a basic principle that if we raise expectations, we do not raise false expectations. There were communications from Government on several occasions in the past year and in all communications there was a declared expectation that there would be an extension of at least three years up to five and there was never any mention of a cap. That is the difficulty. Had a cap been mentioned at the start, it would be fine. I do not think anybody objects to the cap that is being set out, but if we have given false expectation, we should try to avoid the consequences. It is very limited, as it only applies to those who might have purchased a car in the last year between the budget and now. Prior to that there was no such expectation. It should not apply to anybody going forward. I do not disagree with the cap, but for those people who did purchase a car, whatever the number, it has consequences. For some who would be wealthy, it would not be an issue, but for others pushed to the pin of their collar who want to do the right thing it would have financial consequences. We should try to avoid that. The amendments ensure this would only apply to those who might have been caught in the past year by the false expectation that was created by the advertising in which the State engaged of which I have some examples. This would be unjust to the small number who purchased the electric vehicles.

Deputy Paschal Donohoe: As I said, I will look at the numbers who have been affected by this section. All I am committing to doing is examining it to see if it offers a reason to assess what I am doing. I genuinely do not believe that the policy we are putting in place in the Bill will cause significant financial hardship to anybody, should one be in a position to buy a vehicle that costs more than €50,000 - many of them cost a great deal more than €50,000. I strongly

believe that the role of tax relief and tax expenditure is targeted to provide support to people to help them to make a decision which they otherwise would not make.

I note that neither of the Deputies is disagreeing with my decision in terms of its direction, but their comments relate to those who may feel they have been affected in the past. It is in the spirit that everybody feels this is the right thing to do in the future, that I will see if there are figures that may give me a reason to think about it.

Deputy Michael McGrath: Will the Minister bear in mind when he talks about vehicles costing more than €50,000 that the tax liability will be on the employee, whereas it is the company that buys the car and provides it to the employee? The benefit-in-kind exemption, if it is capped, will affect the employees and result in a greater tax bill for them. That is not related to the affordability of the car for the company.

Deputy Paschal Donohoe: I understand that point, Deputy, but I would still make the point that if anybody is in employment and the company car they are being given exceeds €50,000 by quite a margin, it is likely that their income from that employment means they are well able to cope with changes like this. This is the right decision to make moving forward.

Deputy Michael McGrath made the point about retrospectivity; there is no retrospectivity but it affects people moving forward from this date. We are not changing the relief people would have got in the past, so I would think differently from the Deputy on the retrospective piece but having said that, the members who have spoken on the section acknowledge that the move I am making is the right one. I will see how many people could have been affected by this and if this offers a reason to consider the matter on Report Stage.

Acting Chairman (Deputy Peter Burke): How stands the amendment?

Deputy Michael McGrath: I will withdraw it. I will revisit it on Report Stage, if necessary.

Amendment, by leave, withdrawn.

Deputy Michael McGrath: I move amendment No. 6:

In page 11, line 23, to delete “1 January 2019” and substitute “1 January 2020”.

Amendment, by leave, withdrawn.

Deputy Eamon Ryan: I move amendment No. 7:

In page 11, line 25, after “€50,000,” to insert “or, if the original market value exceeds €50,000, the car was first made available during the period 1 January 2018 and 15 October 2018,”.

I will withdraw my amendment but will return to it on Report Stage.

Amendment, by leave, withdrawn.

Deputy Michael McGrath: I move amendment No. 8:

In page 11, line 27, to delete “1 January 2019” and substitute “1 January 2020”.

Amendment, by leave, withdrawn.

Deputy Eamon Ryan: I move amendment No. 9:

In page 11, line 29, after “€50,000,” to insert “and the car was not first made available during the period 1 January 2018 and 15 October 2018,”.

Amendment, by leave, withdrawn.

Deputy Michael McGrath: I move amendment No. 10:

In page 11, line 37, to delete “31 December 2018,” and substitute “31 December 2019,”.

Amendment, by leave, withdrawn.

Deputy Michael McGrath: I move amendment No. 11

In page 12, line 2, to delete “1 January 2019” and substitute “1 January 2020”.

Amendment, by leave, withdrawn.

Deputy Eamon Ryan: I move amendment No. 12:

In page 12, line 4, after “€50,000,” to insert “or, if the original market value exceeds €50,000,

the van was first made available during the period 1 January 2018 and 15 October 2018,”.

Amendment, by leave, withdrawn.

Deputy Michael McGrath: I move amendment No. 13:

In page 12, line 6, to delete “1 January 2019” and substitute “1 January 2020”.

Amendment, by leave, withdrawn.

Deputy Eamon Ryan: I move amendment No. 14:

In page 12, line 8, after “€50,000,” to insert “and the van was not first made available during the period 1 January 2018 and 15 October 2018,”.

Amendment, by leave, withdrawn.

Section 9 agreed to.

Acting Chairman (Deputy Peter Burke): We now come to amendment No. 15, which has been discussed with amendment No. 5.

NEW SECTION

Deputy Michael McGrath: I move amendment No. 15:

In page 12, between lines 11 and 12, to insert the following:

“Report on potential impact on the use of fully electric business cars and vans

10. The Minister shall, within three months of the passing of this Act, prepare and lay before the Oireachtas a report on the potential impact on the use of fully electric business cars and vans of imposing a maximum threshold of €50,000 original market value for the

purposes of benefit in kind.”.

This amendment related to the previous section. I will withdraw it.
Amendment, by leave, withdrawn.

Section 10 agreed to.

SECTION 11

Question proposed: “That section 11 stand part of the Bill.”

Deputy Paschal Donohoe: Section 11 amends section 128 of the Taxes Consolidation Act 1997, which provides for favourable tax treatment of share options granted under the KEEP programme. As Deputies may be aware, this programme was introduced in last year’s Finance Act but information I have received suggests that to date uptake has been less than expected.

Section 11 proposes a number of changes which I expect will enhance the attractiveness of the scheme to SMEs with high potential. Under the scheme there are restrictions imposed on the total market value of schemes which can be granted by the qualifying company to a qualifying employee. The restrictions are set out in paragraph (d) in the definition of “qualifying share option” in subsection (1). The first amendment, which is subject to a commencement order changes the restrictions applied at employee level whereby the limit of €250,000 in any three consecutive years of assessment is replaced by a lifetime limit of €300,000. The limit of 50% of the annual emoluments in the year of assessment is increased to 100% and the second change amends subsection (8) to provide for the collection of information required for State aid publication purposes for the qualifying company’s annual return.

The measure is subject to State aid approval by the Commission and so contains a commencement provision to allow for that to happen before it comes into effect.

Deputy Michael McGrath: I welcome these changes to the key employee engagement programme, KEEP. The level of interest in the scheme, as originally structured, has been disappointing. I accept it is early days yet but a number of the restrictive elements of the scheme have been highlighted by business representative bodies and by a number of SMEs directly as well. It is a really important programme for attracting and retaining talent in the SME sector. It remains to be seen whether these changes will have the desired effect but I think we need to put them in place and measure over time what the impact will be.

I welcome these changes.

Deputy Paschal Donohoe: The level of interest has been quite high but it is fair to acknowledge that the level of drawdown has been lower than I would have expected. Our experience of these programmes is that it is well into the early phase of the operation before drawdown begins. Even against that expectation, it is lower than we would have expected.

Question put and agreed to.

SECTION 12

Question proposed: “That section 12 stand part of the Bill.”

Deputy Paschal Donohoe: Section 12 inserts a new section 790CA into the Taxes Consolidation Act to provide income tax relief in respect of the additional superannuation contribution,

ASC, which will replace the pension related deduction, PRD, in accordance with Part 4 of the Public Service Pay and Pensions Act 2017. The ASC will be payable by public servants from their pensionable pay with effect from 1 January. Under this section, the ASC will be treated in the same manner as the PRD for income tax and USC purposes. Accordingly, ASC will be deductible as an expense in the year in which it is paid for income tax but not for USC purposes.

Deputy John McGuinness took the Chair.

Question put and agreed to.

NEW SECTION

Deputy Paschal Donohoe: I move amendment No. 16:

In page 13, between lines 9 and 10, to insert the following:

“Amendment of section 126 of Principal Act (tax treatment of certain benefits payable under Social Welfare Acts)

13. Section 126 of the Principal Act is amended—

(a) by substituting the following for subsection (1):

“(1) In this section—

‘the Acts’ means the Social Welfare Acts;

‘the Act of 2005’ means the Social Welfare Consolidation Act 2005.”,

(b) by inserting the following after subsection (6):

“(6A) A payment which is—

(a) described in column (1) of the Table to this section,

(b) paid on the basis specified in column (2) of that Table, and

(c) made by the Minister for Employment Affairs and Social Protection to an individual on or after 1 January 2019,

shall be exempt from income tax and shall not be reckoned in computing income for the purposes of the Income Tax Acts.

(6B) A payment which—

(a) is described in column (1) of the Table to this section,

(b) is paid on the basis specified in column (2) of that Table, and

(c) was made by the Minister for Employment Affairs and Social Protection to an individual before 1 January 2019,

shall be treated as if it was exempt from income tax in the year of assessment to which it relates and shall not be reckoned in computing income for the purposes of the Income Tax Acts.”,

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(c) by deleting subsection (7), and

(d) by inserting the following Table to the section:

“TABLE

Description of payment(1)	Basis on which payment is made(2)
Basic supplementary welfare allowance	Section 189 of the Act of 2005
Back to education allowance	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as ‘Back to education allowance’
Back to work enterprise allowance	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as ‘Back to work enterprise allowance’
Back to school clothing and footwear allowance	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as ‘Back to school clothing and footwear allowance’
Carer’s support grant	Section 225 of the Act of 2005
Constant attendance allowance	Section 78 of the Act of 2005
Death benefit – funeral expenses	Section 84 of the Act of 2005
Death benefit – orphans	Section 83 of the Act of 2005
Direct provision allowance	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as ‘Direct provision allowance’
Disability allowance	Section 210 of the Act of 2005
Disablement gratuity	Section 75(8) of the Act of 2005
Domiciliary care allowance	Section 186F of the Act of 2005
Exceptional needs payment	Section 201 of the Act of 2005
Farm assist	Section 214 of the Act of 2005
Fuel allowance	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as ‘Fuel allowance’
Guardian’s payment (contributory)	Section 130 of the Act of 2005
Guardian’s payment (non-contributory)	Section 168 of the Act of 2005
Household benefit package	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as ‘Household benefit package’
Humanitarian assistance payment	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as ‘Humanitarian assistance payment’

Jobseeker's allowance	Section 141 of the Act of 2005
Jobseeker's transitional payment	Section 148A of the Act of 2005
Medical care	Section 86 of the Act of 2005
Part-time job incentive scheme	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as 'Part-time job incentive scheme'
Rent allowance	Section 23 of the Housing (Private Rented Dwellings) Act 1982
Supplementary welfare allowance	Section 198 of the Act of 2005
Telephone support allowance	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as 'Telephone support allowance'
Training support grant	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as 'Training support grant'
Urgent needs payment	Section 202 of the Act of 2005
Widowed or surviving civil partner grant	Section 137 of the Act of 2005
Working family payment	Section 228 of the Act of 2005
Youth employment support scheme	A payment made under a scheme administered by the Minister for Employment Affairs and Social Protection and known as 'Youth employment support scheme'

””. This section introduces a new section 480B into the Taxes Consolidation Act, 1997, which is related to the calculation and remittance of income tax under the newly modernised PAYE system that will be going live on 1 January 2019. This new section will increase the value of certain tax credits, reliefs and rate bands in specific circumstances to ensure that weekly and fortnightly workers do not suffer a reduction in take-home pay solely because of administration issues relating to the day of the week on which they are paid and the number of weeks in a calendar year. This is considered particularly important for lower-wage workers where even a €1 or €2 per week difference in take-home pay would have a material effect.

In most years, a weekly-paid employee has 52 pay days in a tax year. When calculating the amount of tax that is to be remitted to Revenue under the PAYE system each week, the applicable tax credits and standard rate bands are divided evenly over 52 weeks. However, the tax year follows the calendar year and is comprised of either 52 weeks and a day or 52 weeks and two days in a leap year. As a result, every five or six years a weekly paid worker will have 53 pay days within one calendar year instead of the normal 52. This extra pay day is commonly known as a week 53 pay day. Fortnightly paid and four-weekly paid employees also experience the same issue, albeit less frequently.

The impact of the week 53 pay day is that, unless measures are taken, because a person's statutory tax credits should be divided by 53 rather than 52, in a week where they have a week 53 pay day they will end up with less weekly take-home pay across the whole year as reflected

in their weekly payslips when compared with the previous or following years. This arises solely by virtue of the week 53 payday, depending on the particular day of the week on which they are paid.

Special administrative arrangements were previously in place to ensure this did not happen but, because of the legislative changes made in the Finance Act 2017 to allow for PAYE modernisation, there is no longer a legal basis for the administrative arrangements. Therefore the legislation is being amended to ensure that there is no reduction to take-home pay by increasing the value of certain tax credits, deductions, exemptions and rate bands by 1/52 when a week 53 pay day arises. This treatment will apply to all applicable rate bands and identified credits and exemptions that have a fixed value or where there is an annual cap. This includes the most commonly used credits such as personal tax credit, the PAYE tax credit, the earned income tax credit and the single parent child carer tax credit. An anti-avoidance measure is also being provided to prevent manipulation so the treatment will not apply if an employer changes the pay day during the week, during the year or during the previous year, or if a payment including a notional payment is made to an employee on 31 December and this is not the employee's normal payday.

In the broader context of PAYE modernisation, this amendment is expected to be generally cost neutral from an Exchequer perspective.

Amendment agreed to.

Question proposed: "That section 13 stand part of the Bill."

Deputy Michael McGrath: On the section, if I may, in respect of the PAYE modernisation programme, I would like to ask the Minister if he is satisfied with how the preparatory work is going in terms of the level of contact with employers. In the last couple of weeks, a number of small business have been in touch with me to share their experience. I have some concern for people who are self-employed and paying themselves a wage, or for very small businesses that require an accountant or payroll operator to process their payroll every week, fortnight or month. Now that we are moving to a real-time payroll system and a lot more information will be exchanged between the employer and Revenue on a frequent basis, is the Minister satisfied with the preparation, which is now at a very advanced stage? Is he satisfied that it will not result in significant extra costs on self-employed persons and small firms that rely on a third party to process their payroll? In the past they might have only required contact with their accountant every few months. Will they now require much more frequent contact and therefore incur extra costs? This is coming down the track. I know Revenue has done a huge amount of work and we have been aware of this for quite some time. I hope it will go smoothly but in recent weeks some issues and concerns have been raised with me in respect of the self-employed and very small businesses that do not process their own payroll.

Deputy Paschal Donohoe: The short answer to the Deputy's question is that I am satisfied with the preparation that has gone on so far. As he acknowledges himself, it should be evident to any employer that this change, which is the most significant change in how we administer our PAYE tax code in nearly the past 50 years, has been on the way. A significant amount of engagement has gone on. In respect of small and medium-sized companies, I guess I would split them into two sections. For those companies that use payroll software to run their payroll, Revenue has engaged extensively with the software industry as opposed to the employers to make sure the software has been coded appropriately and changes made ahead of 1 January 2019. In respect of employers who do not use payroll software, Revenue has provided an easy-to-use process within the Revenue Online Service, ROS, system to capture payroll data for each

employee. The process includes data screens that the employer will be obliged to complete for every employee each time a pay run is completed. The burden associated with this work will be offset by the abolition of a set of forms that employers previously had to complete. My anticipation is that the saving in time and cost that will be made by the abolition of those data reporting requirements will be an offset to the fact that there will be a need for employers who do not have payroll systems to engage in the ROS system in the way we have described. The data required are in line with what employers are currently required to provide on an employee's payslip under employment law. It is important to note that there will be no changes to the dates by which PAYE liabilities are paid to Revenue. Crucially, as this is done properly, there should not be any effect on cashflow for employers as the dates on which the PAYE liabilities are due to be paid to Revenue are unchanged. That said, should any employers have difficulties as to where they stand in this regard, additional staff and resources have been provided to the helpdesk for this area, the telephone number for which is (01) 7383683. That helpline has been available for some time.

On Second Stage, Deputy Fitzmaurice raised a concern about costs for accountants who focus on small and medium sized companies. We have looked into this issue. I will not name any companies, as that would not be appropriate and it is not my business to direct business to other companies, but we found that costs can be as low as €7 per month for companies of up to 25 employees. Some companies charge up to €149 per year and we found a free service for employers with only a single employee. Our examination showed a diverse range of costs. Revenue has also been informed by some payroll software developers that they have been contacted by employers who use a payroll agent and have decided to do their own payroll, probably because they have become aware of the level of optionality and resources available directly through the Revenue online service, ROS. I will continue to monitor the position. I cannot comment on the level of charges which some accountants may levy but I will play a role in ensuring that widespread opportunism does not develop as small companies make this change.

Deputy Michael McGrath: The Minister says this will not have cashflow implications for employers and I accept that. However, I note that the budget day booklet estimated that Revenue will collect an additional €50 million from increased compliance levels among taxpayers. The expectation is that workers will pay more tax because of better compliance arising from the system. In simple terms, I understand that the Minister is saying that where an employer has a payroll software system, and runs payroll weekly, fortnight, monthly or whatever, that information will be shared automatically online with Revenue in real time and in a seamless manner. However, employers who do not operate such a system and outsourced providers that run the payroll on their behalf will have to go online every time they run the payroll and make a declaration to Revenue using the key numbers each time.

Deputy Paschal Donohoe: The Deputy is correct on both counts. On the €50 million figure for increased compliance, that relates to all tax collected.

Deputy Michael McGrath: It is PAYE compliance.

Deputy Pearse Doherty: The table lists various reliefs such as dental benefit and the direct provision allowance. I am not sure which of these were already in place and which are new. Have any new reliefs been included and have others been excluded?

Deputy Paschal Donohoe: Does the Deputy's question relate to the credits?

Deputy Pearse Doherty: It is in relation to section 13, amendment No. 16, and the table

showing a list of amendments. Is that correct?

Deputy Paschal Donohoe: No, I think we are at cross purposes.

Deputy Pearse Doherty: Amendment No. 16 relates to section 13. We have not dealt with that.

Deputy Paschal Donohoe: No.

Chairman: The amendment was agreed. We are dealing with the section.

Deputy Pearse Doherty: Will the Minister clarify if any of the payments listed in the table in amendment No. 16 are new to the list or if any other payments have been excluded? Perhaps the Minister could provide this information later.

Deputy Paschal Donohoe: I do not want to add to confusion, but I will need to check which amendment the Deputy is referring to because I am now dealing with section 13. I think the Deputy is referring to an amendment to a later section. Is Deputy Doherty referring to the taxation of social welfare benefits?

Deputy Pearse Doherty: I am referring to the amendment of section 126 of the Principal Act and the tax treatment of certain benefits payable under Social Welfare Acts.

Deputy Paschal Donohoe: That is a different section.

Deputy Pearse Doherty: It is printed in the list of amendments as being section 13. I did not think we were dealing with it now but I may be at cross purposes. I refer to the amendment to section 13.

Deputy Michael McGrath: The Minister spoke to that amendment.

Deputy Paschal Donohoe: No, I spoke on the section.

Deputy Pearse Doherty: Yes, it is about tax reliefs and that was fine. What I am raising is separate. It is an amendment to section 13 because it is in addition to it. I do not think that we have dealt with that.

Deputy Paschal Donohoe: No, we have not. We have dealt with my amendment which related to tax reliefs.

Chairman: The Minister moved amendment No. 16, which is part of section 13. I put the question on the amendment and it was agreed. We then discussed the section and Deputy McGrath spoke and the Minister replied.

Deputy Michael McGrath: The Minister is saying he spoke to the section, not to amendment No. 16.

Chairman: He moved the amendment.

Deputy Pearse Doherty: I appreciate that and have no problem that we have accepted it. However, there has been no discussion on amendment No. 16 to section 13. I have no issue with the amendment. I have a query on whether the list of payments to be exempt from the tax is the existing list, or whether there have been additions or deletions?

Deputy Paschal Donohoe: That is the existing list. Will the Chairman confirm that what

we are now discussing amendment No. 16?

Chairman: No. We dealt with section 13 and I asked the Minister to move amendment No. 16.

Deputy Paschal Donohoe: I moved it.

Chairman: Yes, and we agreed it.

Deputy Paschal Donohoe: Yes.

Chairman: Then we discussed the section and Deputy McGrath spoke to it. However, Deputy Doherty sought clarification on the amendment. The Minister is not declining to provide clarification.

Deputy Paschal Donohoe: No, that is fine. I will give more context to that amendment and, in doing so, I will answer the Deputy's questions. A number of social welfare payments are taxable in law but tax is not collected in the vast majority of cases in question. Revenue and the Department of Employment Affairs and Social Protection have examined the tax treatment of social welfare payments in anticipation of PAYE modernisation, and my Department has now joined these discussions. Arising from the work of this group to date, I decided on First Stage statutorily to exempt from taxation approximately 30 payments, as listed in the amendment, including jobseeker's allowance and jobseeker's transitional payments through this Committee Stage amendment. The full list is set out in the amendment. The guiding principle on the outcome of this process has been that no recipient of a social welfare payment should be worse off as a result of these changes.

In addition, as I mentioned, despite being taxable in law, tax was never collected in the vast majority of cases. Where tax was collected in the case of the guardian's payment, both contributory and non-contributory, it was at a nominal level. The purpose of the amendment, therefore, is to ensure the Revenue's current treatment of the payment in practice will continue after the introduction of PAYE modernisation on 1 January 2019. To follow on from this initial process, I asked my officials to further examine the tax treatment of social welfare payments in a second phase. The work will be done in conjunction with officials from the Department of Employment Affairs and Social Protection with technical support from the Revenue Commissioners.

Other payments may well also be made by various parts of the State's system that need to be considered in the same way as social welfare payments. To the extent that such other payments require attention, arising from the introduction of PAYE modernisation, the relevant Departments will be included in the process. A number of matters need to be carefully considered and fully thought through, such as costs to the State and wider policy implications of any legislative change in social welfare payments. My first step, therefore, is to ensure as far as possible there is consistency in treatment within groups of payments such as social welfare and across the wider set of State payments. The task will take time to complete to ensure we capture all relevant payments and we make the right decisions. I expect it to take a few months to do. Pending completion, Revenue will maintain the *status quo* in its approach to social welfare and other State payments that fall for consideration under this process. There are other payments, the breadth of which I must determine. Over the period we do this work, the *status quo* in the administration of those payments will not change.

Question put and agreed to.

NEW SECTIONS

Deputy Pearse Doherty: I move amendment No. 17:

In page 16, between lines 7 and 8, to insert the following:

“Report on tapering out income tax credits

14. The Minister shall, within 6 months of the passing of this Act, prepare and lay before Dáil Éireann a report on tapering out income tax credits for incomes between €100,000 and €140,000 at a rate of 2.5 per cent for each €1000 earned.”.

This amendment relates to the tapering out of income tax credits for those on higher incomes. The proposal is for a tapering out of incomes between €100,000 and €140,000 at a rate of 2.5% for each €1,000 earned. The formula means that by the time one earned more than €140,000, one would have exhausted or lost all of one’s income tax credits. It would not affect any other tax credits of which an individual of that income may avail.

A similar system is in operation in Britain, having been introduced a number of years ago by the Labour Party. The Irish tax system is renowned for its generosity with tax credits that provide a cushion for low-paid workers, which is right, but it is time to ask whether it is appropriate for those on higher salaries to avail of income tax credits for relief.

For the first time ever, we know the data on individual incomes as opposed to tax pair units, which I tried to pursue for a number of years and which I am grateful to the Revenue Commissioners for providing. For the first time, we can clearly see the income earned in the State on an individual basis as opposed to trying to establish whether an income of €160,000, for example, was a couple earning €80,000 each. From those data, we also know that the top 10% of income earners earn one third of all income in the State. The data show that the top 1% earn 11% of all income in the State and 10,000 people have a combined income of €5.6 billion - that is, some 10,000 people in the State who, on average, have an income above €500,000 each. It is not appropriate that we provide tax credits to those people through our tax system. I understand and support the rationale behind tax credits but there needs to be a point beyond which we should not subsidise that level of high income tax through the taxation system.

My proposal is for a tapering out of those tax credits. Nobody would lose them in one go but they would be lost at a rate of 2.5% for every €1,000 earned above €100,000. At the point where one reached €140,000, one would receive no tax credits. For incomes below that threshold, a portion of the tax credits would still be received. I accept that this would require changes for Revenue. I am on record as saying how impressed I am by Revenue and the systems it operates. It is feasible to discuss tax credits now and, while this amendment would not increase the marginal rate of tax, it would have an impact on the effective rate of tax for high earners. This proposal is worthy of consideration and what it asks the committee to support is no more than considering a report to look at the impact of a tapering out in order that the committee, with the benefit of the work of the Minister’s officials and in conjunction with the Revenue Commissioners, could make informed decisions about the direction in which we should or should not go in the tapering out of tax credits for this 3%, because only 3% of income earners in the State earn more than €100,000. Some 10,000 people, however, earn more than €500,000, which is fine and they have doubtless sought employment or have other ways of generating that income. The question for us is whether we should, at this stage, support through a tax break that type of high income by allowing them to avail of tax credits. It is only fair that we start to look at reducing tax reliefs for incomes in excess of that level.

Deputy Paschal Donohoe: The amendment refers to a report on the tapering out of income tax credits at certain incomes. Substantial research has been published on this subject, and it is estimated that the tapering out of the personal income tax credit, the PAYE credit and the earned income tax credits in the manner outlined by the Deputy could raise in the region of €671 million per annum. The income tax reform plan published by my Department in July 2016 examined this issue due the programme for partnership Government containing a commitment to consider the removal of the PAYE credit for high earners as a part of the medium-term income tax reform plan. It pointed out a number of technical and policy issues that would need to be addressed to achieve a tapered withdrawal of income tax credits, particularly for PAYE employees. A significant issue arising with this amendment is that it would have a negative effect on the marginal rate of tax. The tapering out of a tax credit would result in a higher marginal tax rate within the taper zone that would apply at higher income levels. For example, if the personal tax credit of €1,650 was tapered out at a rate of 5% per €1,000, it would result in a loss of just over 8% per additional euro of income. The marginal rate within the taper zone would be just over 60%. Once the taper period has expired, at income over €120,000 in this example, the marginal rate would revert to €52,000.

Another issue that has been pointed out in previous research is that tax credits and rate bands operate on a cumulative basis as Revenue issues a payroll notification to the individual's employer who then uses the information contained in the notification to calculate the tax to be deducted each time the payment is made. If it is known from the beginning of the year that an employee's income will exceed the chosen threshold, the application of the taper of the credits would be applied from the outset, thereby spreading the tax burden equally over the year. However, where it appears during the course of the year that the employee's income may exceed the chosen threshold, Revenue will need to update the payroll notification to withdraw the relevant credits and this will result in the calculation of arrears from the next payment of salary by the employer, resulting in an uneven distribution of the employee's liabilities over the year and an uneven distribution of yield for the Exchequer.

I am aware that the UK tax system incorporates a personal tax allowance which is subject to a tapered withdrawal for individuals whose income is in excess of £100,000 per annum. However, that threshold was chosen as all individuals with income above that level were already obliged to file a tax return each year and this facilitated the operation of the taper. By contrast, there is no similar liability to file a tax return based on income level in Ireland. Liability to file a tax return in Ireland is determined in most cases by the type of income earned and an individual whose total income is taxed through the PAYE system is not, in general, obliged to file a tax return. An obligation to require individuals in similar circumstances to file a tax return would add to the complexity and administration of the tax code.

Tapering the tax credits could also affect the relative position of different categories of taxpayers. For example, consideration would need to be given to how the taper would work in the case of jointly assessed individuals, such as whether the value of a single personal tax credit or that of a married personal tax credit would be subject to the taper and what income threshold would apply to a single income couple. In addition, the effect of a deduction such as a loss available in respect of one spouse would need to be considered where the couple are jointly assessed to tax.

These issues are being considered by my Department and Revenue on an ongoing basis and have been examined in published reports such as the income tax reform plan and tax strategy group papers. In my view, a report regarding the tapering out of income tax credits would not

be a good use of resources at this time and, for that reason, I cannot accept the amendment proposed by the Deputy.

Deputy Pearse Doherty: The Minister opened his contribution by saying we should listen to other ideas and so on. I am asking him to assist us in teasing out an idea that we favour and that is applied in a different format but on the same principle in our nearest neighbouring jurisdiction. The Minister put a number of figures on the record which I believe are inaccurate, or may not be up to date. For example, he indicated the cost of this would be €650 million. That may be on the assumption that this is a taxpayer unit, as opposed to individual incomes. Based on the Department's costings, the full year effect of this proposal would be €220 million and a partial year effect would be €180 million. That is maybe just a difference between units and so forth. I want to clarify that the proposed measure would not apply to taxpayer units and relates to individual incomes. I made that point when I referred to the data the Revenue has provided for the first time.

I listened to the Minister's concerns. He referred to a tapering off at a 5% rate, whereas the proposal is for a tapering off at a rate of 2.5%. This would mean someone earning €101,000 would lose €82.50 of his or her tax credit.

There would obviously be logistical issues, and the Minister talked about that in terms of how the Revenue deals with calculations and so on. I think we can agree that all of those issues could be overcome if the principle was accepted. The Revenue Commissioners have dealt with far more complex issues than what we are suggesting in terms of tapering out individual tax credits.

This is an issue of principle. How should tax credits apply in the tax code? Why are they provided in the first place? The Finance Bill has dealt with an increase in the self-employed tax credit, which is welcome, although it should have gone further. There are many other tax credits in place to support people. The PAYE tax credit should not support the highest incomes in the State. It is not appropriate to provide a tax credit for the 10,000 people who are earning, on average, in excess of €500,000.

We are asking the Minister to assist us in this regard. This type of report does not take much time. Revenue has done a significant amount of crunching on this and we have done considerably preparatory work on this issue. This is an issue of principles and whether we want to continue to provide a cushion for the highest incomes in the State or whether we believe, as has been done in other jurisdictions, that when one starts to reach an income of a certain level, which is multiple times of the average wage, the State should not provide this tax break. At that point, the taxpayer one is able to paddle one's own canoe. There are many other tax breaks. Many of the 10,000 individuals who have incomes in excess of €500,000 are able to reduce their tax liability, as we discussed with the Comptroller and Auditor General's report, through other measures and reliefs. Why we are providing them with this break is seriously questionable.

I am disappointed by the Minister's response and I ask him to reconsider. The proposed report can be published and there is no requirement on the Minister to commit to it. At this point, a report can be done by the Revenue officials in the Minister's Department. It could be published within a short period. We have stated in this amendment that it would be six months. If the Minister required longer, I am open to hearing that. This is a matter of principle. This can bring in a significant amount of resources, whether €180 million or €220 million, which could be pumped into areas of society where we need to relieve pressures.

I ask the Minister to consider this proposal. A similar measure was introduced in Britain by the Labour Party. The measure would increase the effective rate of tax for higher income earners. There are no two ways about that but it does not increase the 40% rate, which these taxpayers will continue to pay. This is not a radical move. The Tory Party implements this in Britain. The Minister should be comfortable with this idea. This is not way out there. This is about fairness and who needs and does not support. The idea of tapering out reliefs for those earning between €100,000 and €120,000 or €140,000 is to ensure there is not a dramatic increase in the effective rate of tax that would be applied. Under the model applied in Britain, which is different, tapering out applies in respect of incomes between £100,000 and £120,000 and the effective rate of tax increases at a much sharper rate than in the model we are proposing. It has not scared off investment in Britain, or indeed scared off employees. It is accepted, par for the course, and has been in place for many years. We have something in our tax code that has always been the way, but that does not necessarily mean that it should be the way we operate. This is the time to consider it, and I ask the Minister to support this amendment and allow his officials to produce such a report.

Deputy Paschal Donohoe: I have already explained to the Deputy the reason I am not going to accept an amendment to the Finance Bill on the production of a report. The Deputy has acknowledged that this is a difference of principles regarding tax policy. I believe we have high effective tax rates in place already for those who are high-income earners. If one earns more, one should pay more. My concern is that if we increase the effective tax rate for people above a certain level of income, it will affect decisions being made in our economy. I have heard the Sinn Féin health spokesperson, who attended a recent conference on consultants, make the point that more should be done on the issue of recruitment and retention of consultants. Measures such as those proposed by Deputy Pearse Doherty affect all of that. There is a certain group of people within our economy which earns more than the average income earner and which pays more tax as a result, as is correct. All the international comparisons with our tax code state that we get the progressivity right in the main. While I am not going to give a commitment to produce a report in the Finance Bill, given how much work we have already done on it, if the Deputy needs any information or needs anything to help develop his policy in this area, I will supply it to him through a parliamentary question or via any other format.

Deputy Richard Boyd Barrett: This is a very modest measure. As discussed earlier, we would go a hell of a lot further in trying to use the tax system to generate more equality in the distribution of income in Irish society. The Minister has concerns about this particular amendment and the production of a report. His earlier responses were thoughtful in that he offered to listen to ideas and to provide information to people who are developing alternative policies. He speaks about progressivity and worries about the effective rate going higher, but he has not really acknowledged the point that emerged in the Comptroller and Auditor General's report suggesting that those general statements are not accurate. What the Comptroller and Auditor General has said is deeply troubling. It angers me, and I suspect a number of workers out there, that we actually have a very substantial cohort of very rich people who are not paying high effective income tax rates because of loopholes, allowances, credits, deductions, etc. that they are able to avail of. This measure is only a small measure in that regard, but at least it is moving in the right direction. Does the Minister acknowledge that there is an issue? Was he alarmed by what the Comptroller and Auditor General found? Does he think it behoves the Government to look at it as a matter of urgency to ensure that we do not have a situation where very wealthy people are paying very low levels of tax because they are able to find means through the tax code to substantially reduce the amount of tax they pay?

Deputy Pearse Doherty: It boils down to ideology and principles. The 10,000 people with incomes above €500,000 should not be getting a tax break of €3,300. That is it. Sin é. That is the black and white of it. This amendment provides for that. The report would look at different options, but the Minister is sitting there, with full knowledge of the levels of inequality in existence in this State and of the many people with dramatically less incomes than this who are working every hour that God sends yet still face pressures at the end of every week because of all the things we have talked about, including rent, insurance, childcare and other things. Knowing all of that, the idea that the Minister would defend a tax break of €3,300 for the 10,000 individuals who earn in excess of €500,000 per year is unjustifiable. There are no two ways about it. This is a tax break. There is a rationale for such breaks for those on low and middle incomes, and even for those on higher incomes. We are talking about the top 3% of earners. We are not even talking about taking away that tax break all at once.

The data from the Revenue Commissioners are stark. The top 1% has 11% of all the income earned in this State, and is being provided with a tax break. This is the time to fix it. Just because this has always been the way we have operated does not mean it is the correct way to proceed. It is modest. A person earning €500,000 a year will pay an additional €3,300 in tax as a result of this measure. We would prefer to go much further, but I know there is no point in putting down other proposals in terms of an additional USC charge on top of that. This is something very basic. Tax on these individuals brings in a hell of a lot of money - some €220 million - that we need, which could be used to deal with the cost of living pressures bearing down on so many people. It is mind-blowing. Perhaps it is not, actually. It is an ideological issue. The Minister can wrap it up however he likes, but the people earning that amount of money do not need a tax break from the taxpayer. People who are working and struggling to get by are paying their taxes, and that tax break, while giving them some benefit, is also benefitting the highest income earners in the State.

Deputy Paschal Donohoe: Let us look at the figures we have on the progressivity of our tax code and the different issues raised there, and the top 1% of income earners, which we believe to be 27,305 units. That 1% of income earners is in receipt of 10.5% of income and will pay 22% of total income tax and USC in our State. Those are the figures. That, by any measurement, ensures that those who are at the top are paying what they need to pay to contribute to the funding of public services in our State and making their contribution to the social contract.

Deputy Boyd Barrett raised a point about the report of the Comptroller and Auditor General. There are other figures concerning that report, relating to the situation in 2016. They show that those earners in our State earning more than €400,000 had an average effective tax rate of 30.1%. When USC was included the percentage rose to 40.9%. For those who had an income of approximately €400,000 or more, the average tax rate was just under 41%. I would contend that an average tax rate of 41% is proportionate for somebody who is earning €400,000 or more. The Deputy put a point directly to me in asking for my view on people with a tax liability significantly low below the average rate. My view is that if somebody is paying tax at a rate below an average of 41% because he or she is availing of reliefs in the system that, in turn, are tied to the person doing something related to a policy objective such as the creation of employment or the work of a small business, the argument in favour of somebody's tax liability being below the average rate is justifiable. That is if the people concerned are, in turn, doing something the Government or the Oireachtas wants them to do. If people are paying tax at a rate that is below the average rate to which I have just referred because they are seeking to evade their obligations to the State, I expect the Revenue Commissioners to go after them with all of the resources available to them. In my experience, that is what they do. For example, the most up-to-date

figures I have indicated that 149 taxpayers in 2016 paid an additional €225.8 million that they would not have paid if we did not have the high income restriction in place. Even today there is information from the Revenue Commissioners on the resources they will make available to go after people who are not meeting their obligations.

To respond to Deputy Pearse Doherty's comments, I go back to the argument I have just made about what the top 1% are paying. It is 22% of the total income tax and universal social charge take. I have said a number of times across the morning that a change in the tapering as proposed by the Deputy would have other effects that would not be in the interests of the economy and the provision of public services. I absolutely believe people who are earning more should be paying more. I contend that the progressive nature of the tax code and the figures I have shared indicate that, by and large, this happens.

Deputy Pearse Doherty: The Minister claimed that it would increase the marginal tax rate; it does not increase it, but it does increase the effective tax rate. If the Minister wants to start calling the marginal tax rate the rate at which people pay tax on the last euro they earn, he should start dealing with it properly. In the first place, nobody pays tax at the 41% rate because of tax credits. I have never shied away from the fact that this measure would increase the effective tax rate.

This is an issue of principle and I do not dispute what the top 1% pay in terms of overall tax take in the State, but we must also acknowledge that the top 10% of earners have one third of all income earned in the State, while the top 1% have 11%. There is a significant number of people who are correctly exempt from paying income tax and the universal social charge because of their low levels of earnings. It boils down to a simple question. There are 10,000 people earning, on average, in excess of €500,000 in the State and the Minister believes it is justifiable to continue providing a tax break in the region of €3,300 for each and every one of them. It is not. They simply do not need that tax break and it is not what the tax code is for. It is not fair or appropriate. It will not shift the numbers outlined by the Minister in a significant way with respect to the total amount paid in tax.

This is an issue of equality and fairness. Those with that type of income do not need support from the State. I ask colleagues who may row in behind the Minister to think about this. If there was no such thing as income tax credits and for the first time the committee was deciding whether to introduce them, they would be worthy of support. However, would we provide almost €3,500 of tax credits for individuals such as the 10,000 with an income in excess of €500,000? We would not. If the Minister made such a proposal, there would be uproar and people would say it was unacceptable. That is my point; just because it is and has been the way does not mean that it should be. There is no way Fianna Fáil would support the idea because its members know what the public reaction would be. They would argue that tax credits should be directed towards those on low and middle incomes. That is what we are doing in this proposal. It is not even restricted to those on low and middle incomes as 97% of income earners in the State would continue to avail of tax credits. Even a large section of the 3% of people who would be left would still be able to avail of a portion of the tax credits. If this issue was coming before the committee for the first time, there is no way any member could support what is now in place because he or she would be crucified politically. Providing tax breaks for the wealthiest people in the State is not acceptable. That is why I will push this modest amendment. Whether the Minister supports the idea or wants to amend it, the amendment seeks a report to get the ball rolling on a debate this state needs to have on how it deals with inequality in wealth creation in society. It is a modest proposal that is, as I stated, being enacted by one of the most

right-wing governments across the water where it is not seen as being something dramatic. The Minister knows that in Britain for everybody £2 earned above the figure of £100,000, £1 is lost from the allowance. That is how sharp and focused it is, but there is no uproar because it is fair. My measure does not even go that far, but we cannot get Fine Gael or, I assume, Fianna Fáil to support it.

Amendment put:

The Committee divided: Tá, 2; Níl, 3.

Tá	Níl
Doherty, Pearse.Boyd Barrett, Richard.	Burke, Peter.Deasy, John.Donohoe, Paschal.

Amendment declared lost.

Staon: Deputies Michael McGrath and John McGuinness.

Deputy Richard Boyd Barrett: Are we breaking at 1 p.m?

Chairman: Yes, for one hour.

Deputy Michael McGrath: I move amendment No. 18:

In page 16, between lines 7 and 8, to insert the following:

“Tax bands for people over 65 years of age

14. The Minister shall, within 3 months of the passing of this Act, prepare and lay before the Oireachtas a report on the potential impacts and costs of increasing the income tax bands for those aged over 65 years of age from the current €36,000 for a couple and €18,000 for a single person.”.

As we discussed, there are different exemption limits and so on within the income tax code. The issue I am raising relates to persons who are aged 65 years or over. The income exemption limits have been €18,000 for a single person and €36,000 for a couple for a number of years. As the Minister will know, for persons who are aged 65 years or over, there are a number of ways by which they can be subject to income tax. They include the income tax exemption limits system, the marginal rate relief system if their income is marginally in excess of the limit and, lastly, the normal income tax system that applies to persons under 65 years of age. As the figures have remained static for some time, they have lost value as time passed. I would like to establish whether the Minister is satisfied with how the system operates. Recently, people in my constituency approached me to share their documentation with me. A couple qualified for inclusion in the income tax exemption limit system as their income was less than €36,000 but because they had not applied for the tax exemption, they were being taxed under the normal income tax system.

I wish to raise two issues, the first of which relates to the thresholds. The income tax bands have remained the same for a number of years. Is the Minister satisfied with how the system operates? Second, is he satisfied that people are availing of the optimal option for them, whether it be the marginal rate relief system, the income tax exemption limits system or the normal income tax system?

Deputy Paschal Donohoe: The Deputy’s amendment refers to the age exemption limit as set out in section 188 of the Taxes Consolidation Act 1997, which provided an income tax

exemption for persons aged 65 years or over and who have annual incomes that do not exceed €18,000 for individuals or €36,000 in the case of married couples or couples in civil partnerships. These thresholds may be increased where there are dependent children, and marginal relief is also available on incomes up to twice the threshold amounts.

The purpose behind the exemption is to strike the appropriate balance between ensuring that those who are in receipt of an income pay some tax and contribute to the Exchequer against the need to safeguard against poverty in retirement. I am, therefore, satisfied that the current limits are appropriate. In 2016, this measure benefitted 74,400 taxpayer units and I am not aware of evidence to indicate that the current exemption limits are causing any undue financial hardship for those over the age of 65 years.

It should also be noted that age exemption is only one of many types of relief available at retirement age, as those aged over 66 years are exempt from employee's PRSI and those aged over 70 years benefit from a reduced rate of USC. Other income tax credits may also be available depending on the personal circumstances of the individual, for example, the personal tax credit, the widow's or widower's tax credit, the credit for blind individuals and so on.

At the current limits, the age exemption has an Exchequer cost of €73 million per annum. Therefore, even a modest increase would have a significant cost. For example, a €1,000 increase for individuals and twice that for couples would cost an additional €39 million per annum.

Any consideration of an increase in the age exemption would need to be cognisant of the significant changes in projected demographics in the medium to long term. It is estimated that the share of the population aged over 66 years will more than double between 2016 and 2071, while life expectancy rates will increase by six years for men and seven years for women over the same period. Even without making further changes, there will consequently be significant pressures on the Exchequer to fund expenditure in areas such as health and social welfare. Therefore, I am of the view that the current income exemption limits are reasonable and are being implemented in an appropriate way, taking account of the various other State supports for those over the age of 65 years.

Deputy Michael McGrath: I wish to add a point on the question of whether it is applied automatically. A pensioner couple, each of whom is 66 years of age, with a combined income of less than €36,000 should be exempt from income tax. If that is not happening in practice, though, is the onus on the couple to ensure the exemption limit is claimed? Does Revenue have systems to recognise that the couple should be exempt and therefore apply the exemption automatically? I have encountered cases where it is not being applied automatically. We have contacted the tax office and got the issue rectified.

Deputy Paschal Donohoe: The onus is on the person to declare in order to access the credit, but if the Revenue Commissioners have information available to them as a result of other declarations the taxpayer has made that indicate to them that the taxpayer should be claiming the credit, they apply it automatically.

Amendment, by leave, withdrawn.

Section 14 agreed to.

Sitting suspended at 1.05 p.m. and resumed at 2 p.m.

SECTION 15

Question proposed: "That section 15 stand part of the Bill."

Deputy Paschal Donohoe: Section 15 is a technical amendment to the existing accelerated capital allowances scheme for energy efficient equipment. This amendment is designed to improve the administrative effectiveness of the scheme. It will not impact on the types of products which may qualify for the scheme or the cost of the scheme. Members will be aware that capital allowances for plant and machinery are usually deductible at a rate of 12.5% per annum over a period of eight years. This scheme provides that certain energy-efficient equipment may qualify for an accelerated rate such that the full amount of allowances may be claimed in the first year.

My amendment removes the necessity for the detailed list of eligible products to be updated by statutory instruments, SIs, every six months. It provides instead that the broad qualifying criteria will be specified in legislation by means of a list of the ten classes of technologies. The detailed qualifying criteria will continue to be updated by SI as is the current practice. The Sustainable Energy Authority of Ireland, SEAI, will then be able to amend the eligible product list as appropriate, within the qualifying criteria, and publish the list on its website.

Deputy Pearse Doherty: I agree with the amendment but this aspect needs to be reviewed and tightly monitored. Obviously, this is a departure given that we are allowing for capital allowances to be granted under qualifying criteria without reference to primary or secondary legislation. I ask the Minister to ensure that information flows and that we consider how the provision is applied after it has operated for a period. I ask for that in order to make sure that the provision is not excessive because we are losing oversight regarding the type of equipment to which this will apply. We would usually deal with this by means primary or secondary legislation. I do not oppose the provision in principle but we need the commitment I have outlined.

Deputy Paschal Donohoe: The Deputy has made a fair point. We are trying to get away from SIs, which contain very minute information that is invaluable in the context of products that meet the relevant criteria. Instead, we are trying to ensure that the criteria are set in legislation and then allow the SEAI to determine which products should meet the criteria because it is the expert in the area. Absolutely, I do not want this to run away with itself. In order to change the criteria, one requires a statutory instrument. We will, perhaps in the run up to next year's finance Bill, update the committee regarding how this has worked.

Deputy Pearse Doherty: Yes.

Deputy Paschal Donohoe: I think that this is a sensible way of doing it but, like the Deputy, I would not want this to create an environment in which the number of products can exponentially increase.

Question put and agreed to.

SECTION 16

Question proposed: "That section 16 stand part of the Bill."

Deputy Paschal Donohoe: Section 16 provides for a new accelerated capital allowances scheme for capital expenditure incurred on gas propelled vehicles and refuelling equipment used for the purposes of carrying on a trade. This scheme provides an accelerated wear and tear

allowance, available for capital expenditure incurred between 1 January 2019 and 31 December 2021. While capital allowances on plant and machinery are usually deductible at a rate of 12.5% per annum over eight years, this scheme provides that relief may be claimed in full in year one. The scheme, therefore, provides a cashflow benefit to those who will avail of it and there is no additional cost.

As Deputies will be aware, the use of natural gas or biogas is a more environmentally friendly, lower carbon emission substitute for diesel or petrol in large vehicles. The introduction of this scheme contributes to the work of the Department of Transport, Tourism and Sport's task force on low emitting vehicles and will help make a contribution to our national target of reducing our emissions.

Question put and agreed to.

SECTION 17

Deputy Paschal Donohoe: I move amendment No. 19:

In page 23, line 5, to delete "Chapter" and substitute "Part".

Amendment No. 19 is a technical amendment to correct a typographical error in section 17 of the Finance Bill, concerning the "acceleration of wear and tear allowances for childcare and fitness centre equipment". This amendment is being made to ensure that the legislation functions as intended and, in particular, that the correct section of the Taxes Consolidation Act 1997 is referred to.

Deputy Pearse Doherty: This provision was introduced on Report Stage of last year's legislation so we never got a chance to tease out some of the impacts of this measure. The Minister has mentioned that the amendment is just typographical. I understand that it provides additional restrictions because the original section was never given a commencement order and that it would not be available or accessible for use by the general public. It was one of my questions that I asked. Given that the number of contributions on Report Stage is limited to two, I never received a response to my question. However, I raised my concern that the provision could be used whereby others, as opposed to employees, could access the service and, therefore, the provision would not meet with the intended, I assume, spirit of the amendment. Amendment No. 19 now clearly ensures that the provision will only apply to employees so that is a significant restriction on this section. I ask the Minister to clarify the position.

Last year, I raised a second issue with the Minister but, again, because of the constraints relating to Report Stage, we did not receive a response. My second query was about a small company creating a gym that is attached to residential premises where a company operates from or, indeed, the company itself. If the gym part of the premises ceases to provide that service to its employees after a period of three years, is there any clawback? Where are the anti-avoidance measures? Someone could avail of this scheme to construct a facility, get the 100% capital allowance on the equipment and, after a period of operation, close it down. Having benefitted from the capital allowance, the premises could then be used for purposes for which they were not intended. I agree with the principle but that question arises.

Deputy Paschal Donohoe: The section, rather than the amendment thereto, deals with the Deputy's first point. That ensures that this scheme is only available to employees of the company within which the facility is located. On his second point, the only clawback that is currently available to us is on disposal of the equipment located in the facility. In the course of

Committee Stage, I will revert to the Deputy and indicate whether any further clawback provisions are in place.

Deputy Pearse Doherty: I appreciate that the point I made last year on how such a facility could be operated as a business while also providing a service to employees has been dealt with in the Bill. The Minister indicated he will ascertain whether further clawback provision is warranted. Should we examine if this measure could potentially be abused in providing office space? This is a lifestyle issue and pertains to the healthy Ireland strategy, all of which is positive. However, there is potential for this to be abused. I could set up a gym and use it for three years, although I am not sure if a particular timeframe is specified. Then, having availed of the capital allowance, I could close it down and use it as a storage facility for my company. I would welcome either an assurance from the Minister that this cannot happen or an amendment to address the issue on Report Stage.

Deputy Paschal Donohoe: I will look at it further, consult the Revenue Commissioners and see if anything is merited on Report Stage. I stated that a clawback would be available on the disposal of the equipment. I expect that this is the only clawback available to us. I say that because the allowances are only available for the equipment, rather than anything broader.

Deputy Pearse Doherty: The allowance-----

Deputy Paschal Donohoe: Excuse me, I am wrong. There is a buildings allowance.

Deputy Pearse Doherty: Yes, that is the issue. We can come back to it.

Deputy Paschal Donohoe: The Deputy is referring to the building part. The amendment refers to the equipment, but Deputy Doherty is right. I will check with the Revenue Commissioners and my officials to see if anything further is merited.

Amendment agreed to.

Section 17, as amended, agreed to.

SECTION 18

Question proposed: "That section 18 stand part of the Bill."

Deputy Paschal Donohoe: Section 18 amends the anti-avoidance provision to close an avoidance scheme being exploited by taxpayers to avoid a charge to income tax. Section 438A extends the scope of the income tax charge under section 438 of the Taxes Consolidation Act 1997. This section is also an anti-avoidance provision which imposes a charge to income tax on a company where a participator or shareholder withdraws profits from the company in the guise of loans. The scheme is extended by section 438A to cases where a company itself does not make the loan, but sets up or acquires a subsidiary to make the loan to the participator or shareholder. It has recently come to the notice of the Revenue Commissioners, from an examination of a matter arising from information in the Panama Papers, that an avoidance scheme is being exploited to avoid the application of the section 438 charge. This scheme in particular involves the provision of a loan by a non-resident company owned by the promoter of the scheme to another non-connected company also owned by the promoter, and a subsequent onward loan to the Irish participator or shareholder. This loan is being used to subscribe for shares in the first mentioned company which are then sold to the shareholder's company. The participator or shareholder has received funds from his or her company, and it is argued that no capital gains

tax arises as the amount received is equal to the amount subscribed by the shareholder for the shares. This scheme, which should be caught by section 438A, does not currently fall within its remit as the provision is too narrowly drafted. I am, therefore, making this change to shut down this scheme and ensure the section operates as intended.

Question put and agreed to.

SECTION 19

Question proposed: “That section 19 stand part of the Bill.”

Deputy Paschal Donohoe: This section makes a number of changes to Part 23 of the Taxes Consolidation Act 1997, which deals with the tax treatment of farmers. First, the section amends section 657, which relates to income averaging, by extending the availability of income averaging to farmers who, or farmers whose spouses or civil partners, carry on another non-farming trade or profession or are directors of companies which carry on a trade or profession. At present, such farmers are not entitled to elective income averaging. Income averaging is a useful mechanism for smoothing out the income volatility associated with the farming sector through the taxation scheme. This change is intended to assist those farmers dealing with income volatility by maximising the number of farmers who are eligible to opt into the regime. It should allow for increased uptake of the scheme. The Irish Farmers Association, IFA, has estimated that some 5,000 farmers were unable to enter averaging as a result of the current restriction on those with off-farm trading income.

Second, the existing general 25% stock relief for farmers and the special incentive stock relief of 100% for certain young trained farmers and 50% for members of registered farm partnerships are being extended for a further three years to 31 December 2021. Stock relief in various forms has been in place since at least 1997 and was last rolled over in 2015. The 2014 agri-taxation review found that stock relief is an important aid to encourage investment in improving stock quality, and that there is a positive relationship between investment in stock and output. Technical amendments are made to sections 667C and 667D to correct incorrect cross-references in those sections.

Finally, the section amends sections 667B and 667D to ensure conformity of those sections with the applicable rules on state aid under the agricultural block exemption regulation. Provision is made for aggregation of reliefs granted to young trained farmers under section 667B, 667D and 81AA of the Stamp Duties Consolidation Act 1999 to ensure that the €70,000 limit provided for in the regulation is not exceeded. In addition, the definition of “micro-enterprise or small enterprise” is updated in line with the European Commission definition.

Deputy Pearse Doherty: This is obviously a welcome initiative. Income averaging for farmers already exists, as it should. It is also cost-neutral over a budgetary period. This is particularly important in the farming sector where incomes can be highly volatile. I am concerned that the Minister did not choose to go beyond what he has done in the Bill by providing for the IFA proposal that a farmer should be allowed to step out of income averaging more than once in a five year period where the farmer is not carrying an unpaid deferred tax amount from the previous step-out. Did the Minister or the Department consider the proposal from the IFA? Obviously, if they considered it they decided against it and, if so, what is the rationale for not going that much further given that it is tax neutral over a period of time? This is not about if the tax will be paid but when it will be paid.

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Deputy Paschal Donohoe: I did consider the matter, which was raised with me by a number of farming organisations and the Minister for Agriculture, Food and the Marine and his Department. There are two reasons I did not do it. The first is that I was concerned about how such a scheme would be operated. I did not have a plan or was not able to develop a plan that would be implemented without giving rise to other risks we could face. Second, I believed that through the maintenance of other reliefs and the change I am making here within the resources available to me, I was making a proportionate response to the needs the farming organisations raised with me.

Deputy Pearse Doherty: Is this something the Department would be willing to tease out in further detail to see if it is possible for a subsequent Finance Bill, while mitigating the risks the Minister identified but did not elaborate on and ensuring that the volatility in that sector is addressed in the best way possible through the tax code?

Deputy Paschal Donohoe: I have had much engagement with the IFA and the Minister, Deputy Creed, has raised this matter with me regularly. I am happy to continue my engagement with them on it. They are aware of the concerns I have. There are other issues they raised with me on which I was able to make progress but I was unable to do so on this matter. I know they will be in contact with me again on the matter in the course of next year and I am happy to engage with them on it.

Question put and agreed to.

SECTION 20

Question proposed: "That section 20 stand part of the Bill."

Deputy Paschal Donohoe: As announced in the budget, this section provides for the extension of corporation tax relief for start-up companies for a further three years so companies which commence a new qualifying trade in 2019, 2020 or 2021 can obtain the relief. This is an important incentive to support growth in the Irish small and medium sized business sector. Start-up ventures have a key role to play in generating economic activity and providing new jobs. While unemployment rates have decreased, enterprise survival rates over the past five years show that start-up companies continue to struggle. The relief supports the survival of new start-up companies which should in turn lead to a very gradual broadening of the corporation tax base.

A review of the relief, conducted this year by my Department and published on budget day, found that it is an important support for new businesses. In 2016, the relief supported 1,051 companies that employ 15,597 people. Based on the expenditure cost of €5.7 million, the average cost per scheme supported in 2016 was €352. This section will extend the relief for a further three years until the end of 2021, at which point it will be assessed again.

Question put and agreed to.

SECTION 21

Question proposed: "That section 21 stand part of the Bill."

Deputy Paschal Donohoe: Section 21 amends section 97(2)(j) of the Taxes Consolidation Act 1997 to give effect to the budget announcement that the amount of interest that may be deducted by landlords in respect of loans used to purchase, improve or repair a residential prop-

erty will be restored to 100% from 1 January next. This change is an acceleration of the rate of restoration of the full value of this relief, which was already due to increase to 100% by 2021. In 2009, the interest deduction for landlords of residential property was restricted in the context of the financial crisis. In 2018, it is difficult to justify continuing this restriction on the private residential landlords who are an essential feature of a functioning housing market.

Interest payments are generally considered to be legitimate business expenses so it is difficult to rationalise why it is not allowable for residential landlords as compared with any other business or even commercial landlords, who have never been subject to such a restriction. The current interest restriction may incentivise investment in commercial rental property over residential rental property. Restoration of full interest deductibility for residential property would remove any such possible distortion and should encourage more investment in residential property, thereby improving the supply of residential rental accommodation for tenants. Furthermore, by improving the net cash position of residential landlords, it is hoped the change will discourage private landlords from exiting the rental market as house prices increase.

The existence of a restriction on the profit-making capacity of a business incentivises it to increase income streams. For landlords this means increasing rent. I am seeking to address at least one incentive to increase rents that is within my direct control at a cost of €80 million in a full year. I am not suggesting that this will solve all matters in the housing market, but I am determined to ensure that, within the resources available to me, we make contributions to dealing with this grave issue. This modest amendment is an important measure in budget 2019.

Deputy Paul Murphy: I do not agree with the section, nor I do agree with the Minister's comments on it. This is a key reason the budget was labelled a landlords' budget. It is a give-away of €80 million a year to landlords. The Minister might confirm that is the cost. The €80 million figure is the cost of increasing the rate of relief from a projected 90% to 100% rather than from 80% to 100%. The total cost of moving from where we were would have been €44 million, according to replies to parliamentary questions. The Minister has not provided a reasonable justification for the public giving a further tax expenditure to landlords, a group that is doing very well in general from the housing crisis, although there are exceptions. We have the highest rental yields in the European Union and double the percentage rental yields of those in Britain or Germany. There is no problem with a private landlord being profitable or incentivising more of them to enter the market. Those incentives exist. The problem is the absence of affordable private rented accommodation, and the biggest problem is the absence of affordable public housing. However, the Government is obviously focused on simply incentivising landlords repeatedly, despite the fact that the housing crisis gets worse daily.

Related to that, is the Minister concerned that this could end up inadvertently incentivising evictions? One of the ways a landlord can qualify for this interest relief is for making improvements, but substantial improvements are also one of the bases on which a landlord can legally evict people. Unfortunately, it is one of pretexts used by landlords who wish to get rid of existing tenants so they can hike rents above the existing rent controls. This measure gives them an extra incentive to take that road. Has the Minister or the Department considered if that could be a possible effect of the proposal?

Deputy Pearse Doherty: I oppose the section and I agree with Deputy Murphy's comments. There is already 100% interest relief for mortgages. That is for landlords who participate in the HAP scheme. The effect of this will be to take away that incentive. That is one issue. The other major concern is that there is no conditionality whatsoever in this in terms of length of tenure. There is also no conditionality on affordable rents or security of tenure. What

it does, as has been mentioned, is create the potential to incentivise evictions because, legally, one is permitted to evict a family or individual if one is carrying out substantial repairs. This incentivises a landlord to carry out major repairs and it is something which, at the bare minimum, should be deleted from the legislation. It also provides, in a market where there is an issue of supply, a greater incentive to landlords to compete with others.

The one point on which I agree is that landlords are an essential part of a housing market. That being said, as I mentioned earlier, the prices landlords have been charging have increased by about 60% since 2012. They are the highest rents ever in the history of the State. We rightly talk about the housing crisis and the most acute aspect of it, whether it is rough sleepers or the thousands of children and their families who are in emergency accommodation, but it is way broader than that. There has been a large increase in the number of adults living in the family home. People in their 20s and 30s cannot aspire to, and do not see a way in which they will, own a home or, in some cases, be able to rent in the capital city because of where rents are at. This was the big initiative from Government regarding the housing crisis. It is pathetic, to say the least, and it is without conditionality. It is a sop to that sector. It is not appropriate and it shows a Government that is lacking in imagination and which is at a loss as to how to deal with the major crisis and social travesty which has been unleashed as a result of the Minister's party being in government for the best part of almost a decade. We have a housing crisis that is out of control. This measure does not fit the Bill. It has the potential to make things worse with regard to evictions. I do not know if people come to the Minister's clinics. I represent a constituency in Donegal where the housing crisis is not as acute as in Dublin, the surrounding areas and in major cities across the State, but it still exists. One of the mechanisms by which landlords are looking to evict people is carrying out repairs. Why is there no conditionality?

When mortgage interest relief increased to 100% from 75%, a condition applied, which was that a landlord had to be part of the HAP scheme. The idea of conditionality with mortgage interest relief has been established in finance Bills and approved by the Houses of the Oireachtas. There should be conditionality at the very least.

Deputy Richard Boyd Barrett: I raised the point on budget day about this being an incentive to evict people. There is no doubt in my mind that is what it is. I know of several examples in my area where it is being done or has been attempted. Most notable is one example I have raised on a number of occasions in the Dáil which is a property owned by Apollo Global Management, an enormous asset management company that bought an apartment block from NAMA in central Dún Laoghaire for a song. First, it attempted to increase rents by 70%. It sent people the notification that it would increase the rents the day before the 4% rent cap came in and the residents resisted and kicked up a stink. I kicked up a stink in the Dáil and it backed off on that but then it came back saying, it would carry out substantial refurbishments and everybody had to leave because it was doing substantial refurbishment to the apartment block. It was pretty strange because a small number of people in that multi-unit complex had purchased and were not tenants and they had heard nothing about substantial refurbishments. Substantial refurbishments of the sort this company was talking about would have required the entire place to be done but those apartment owners had heard nothing so it was a ruse to get the tenants out in order that the company could jack up the rent because it had been unable to get the rent increased by 60% or 70%. I am glad in that case, because we publicised it in the national media and because the residents fought back, Apollo Global Management backed off, although the insecurity it created for many tenants in the block led some to just give up and get out. It is just one example but people need to know what this stuff means in reality. Approximately ten of the units in that block, which are perfectly good units, are sitting empty because Apollo

Global Management wants to see the value of the property clock up, detain the place, make life difficult for the other tenants until they all leave and at some point flip the property. This is where we are at and where our policy of courting - not just incentivising - these people into the property sector supposedly as a means to professionalise the rental sector has been a total disaster. It has been the biggest mistake ever. Instead of the Government recognising it has been a disaster and that we need a radical shift in policy away from courting, incentivising and pandering to these people to using public moneys to invest directly in providing affordable housing, we continue to do this kind of thing. It is madness. I could not be more strongly opposed to what the Minister is doing here. What is the point? I suppose the Minister will argue we need people to provide rental accommodation. What is the point in rental accommodation that is unaffordable for the majority of people? I refer to what I-RES REIT tried to do close to my area in Sandyford recently. We forced it to back off because we kicked up about it in here and the residents protested and so on when it tried to increase the rent by 30% using another loophole. When I met the residents, the existing rent was €2,200 and the trust wanted to increase it to €2,800. Who can afford that? What is the point in supply at that rent? There is none except to make profit for these guys and to extort people. Ultimately, it is an accident waiting to happen because, at a certain point, even these guys will realise there is no point in them supplying at that cost because nobody will be able to buy or rent it. Why would the Minister incentivise these people in that way? It beggars belief when public money could, and should, be put into directly providing accommodation that is affordable and is not based on profit margins but on making accommodation available that is affordable to people who need it.

Deputy Joan Burton: On the rental market, certainly in the greater Dublin area now, there is a very clear example of market failure because rents are increasing rapidly with no reference to any reasonable index as to how and why they should increase. This market failure, as I am sure the Minister will be aware, is leading to a significant number of social problems, including homelessness but also, as I am sure many employers have told him, it is difficult for younger people to move to work in Dublin, unless they are from Dublin, and to afford rents. That is a problem for a country that is selling itself as having an able and eager young workforce. It is increasingly referenced by employers along with public transport, as being one of the reasons why Ireland and Dublin is, in some cases, quickly pricing itself out of the market in respect of the attractiveness it had for employment creation up to three years ago. I do not see in the context of the market failure that is the experience of most people, and with which most economic commentators agree, what exact function the amendment serves and I would be grateful if the Minister could explain that.

Furthermore, because of the market failure and because there are so many voices in the debate, it is important that the Minister makes available to us any lobbying by anybody involved in the rental and property markets in Ireland in the run-up to the budget and the Bill. We should have made available to us the content of any lobbying that was done, either by way of presentation or in writing, to either the Minister or to his officials. At this point in time it is difficult to understand where the market is going. We know where the market is at. Rents are increasingly unaffordable and the rental market compares with some of the most expensive locations in the world. That is not where we want to be in the context of our attractiveness for economic development. Given the difficult challenges that we are faced with on the Brexit front, we need to retain, insofar as we can, some level of competitiveness in order that young people, for whose education taxpayer paid significantly, can aspire to renting at a fair cost a reasonable standard of housing. Ultimately, perhaps a couple of years later if they are settling down and starting a family, they can aspire to taking out a mortgage. Much that is now being put back by about ten years. People who used to buy in their late twenties are now only able to enter into such

arrangements in their middle or late thirties and for some it has become almost impossible.

That has enormous economic consequences. We are owed an explanation from the Minister on his view of the rental market and his view on how landlords should be treated in the rental market *vis-à-vis*, for instance, renters or purchasers in the market. If an economic assessment was conducted on the likely impact of these measures for the market and for people, what did it show?

Deputy Paschal Donohoe: On the importance of housing to budget 2019, I entirely reject the claim that this is the centrepiece of the housing section of budget 2019 or reflects the totality of commitment that we have to deal with the significant housing need that exists within our society. I live in, and have for a long time represented, a constituency that has had to deal with a significant housing need and now has to deal with a different level of housing need. I am as familiar with the anxiety or worry that this creates as anybody here is.

The focus on housing within the budget is best demonstrated by where we are from an expenditure point of view and the commitment that has been made to housing through Ireland 2040 and the commitments that we have for the next number of years. The figures speak for themselves. The total funding for housing in this year's budget is €2.3 billion. If we compare that to budget 2018, this is an increase of €470 million or a 26% increase. That funding is being used through the delivery in budget 2019 of 10,000 new social housing solutions. It will be a mix of building, acquisition, and leasing and looks to provide an additional 17,600 solutions, if they are needed, through the HAP and RAS.

In dealing with the charge that is put to me frequently, particularly by Deputy Boyd Barrett, that we are not doing enough on direct build - he and I have had this debate on a number of occasions, most recently during oral parliamentary questions - for 2019 and beyond, we have a plan in place that will build more social homes every year and looking to build more the year after that. I was briefly in a meeting earlier, during which it was said that in 2014 for the reasons we are all familiar with, there were approximately 400 homes built directly by the State. Next year it will be more than ten times that; in 2020, it will be 7,000 units; and, in 2021, it will be 9,000 units. A key part of the budget overall is the resource commitments that we are making from an expenditure point of view to deal with the great level of need that exists in our society in respect of housing.

More broadly, as was not touched on by anybody, over the past year or so, the number of homes being built in Ireland increased significantly. Between 18,000 and 20,000 homes should be built this year, with approximately 25,000 homes built next year. Supply is a major part of how we will address the difficulties but I accept that it is not the only part. I accept that there are other measures need to be taken. This is why we have made the multi-year investment through the serviced site fund to try to further dial up our supply of affordable housing and this is why we have a programme in place. It was criticised by a number of the members in respect of RPZs. The Minister for Housing, Planning and Local Government, Deputy Murphy, has said that through legislation that he has in hand that he wants to examine ways to make the Residential Tenancies Board more effective. There is a focus that respects the level of need that exists within our society.

I will now turn to some of the specific questions that were put about why I am putting in place such a measure. I re-emphasise that this is looking to bring forward a scheme and a change that we had committed to doing anyway. I am just making it happen sooner. Why am I making it happen sooner? It is my judgment that on the basis of changes we will see in our

housing market across 2019 and beyond, there is a heightened risk of a certain form of landlord looking to leave the sector. The figures available to me, of which many Members are already aware, show that 86% of landlords in Ireland supply two or more homes. I have seen with my own eyes in Dublin central what happens when these landlords leave our communities, and a number of Deputies have also experienced this in their own constituencies. When they leave our communities the tenants either go looking for rental accommodation in an already high income level rental sector, or they cannot get a accommodation at all, which then leads into the social crises of homelessness or really short-term rental accommodation. By bringing forward this measure my objective is to try to make some kind of contribution to ensure that this kind of landlord continues to have a role to play in the provision of rental accommodation in the State.

Private landlords are needed in the rental sector. We need private landlords and we need more kinds of landlords. We need more of the type of landlord who currently supplies one, two or three homes to one, two or three tenants to stay in the sector. Given the changes that are under way in house prices and in construction, especially in Dublin, and on the basis of engagement I have had with my Department, it is my judgment that this measure could play a role in dealing with that issue.

On the issue of engagement with my Department up to this point, I was not lobbied on this matter by any stakeholder. The origin of this measure was contained in the Report of the Working Group on the Tax and Fiscal Treatment of Landlords, which was published last year. This measure was one of ten options laid out in the publicly available report, some of which my Department suggested could have an impact on the level of housing need we have depending on the level of resources available within the budget. This responds to the charges that have been made against us over not recognising the level of housing need within our society currently and the process that got us to that point. That is my rationale for the measure.

The final question, which was asked by all Deputies, was whether or not I believe it could play a role in stimulating further evictions beyond what is happening now. My answer to this question is that I do not believe that is likely to happen because we were due to introduce the measure anyway and we have just brought it forward. The total amount of additional new resources going into this huge sector as a result of bringing this measure forward is €18 million. In the context of the hundreds of millions of euro of taxpayer resources that are already going into that sector, I do not believe this €18 million would significantly alter the incentives that are open to landlords.

Deputy Paul Murphy: The Minister's explanation of why it would not lead to an additional incentive for evictions is not at all convincing. The idea that it was going to happen anyway does not change things. Maybe that extra incentive would have been in a couple of years' time when it was due to be implemented, and we would have kicked up about it and opposed it then, so that is not an answer.

The Minister said that we are talking about only €18 million versus the other amount of money that goes into housing is. Again, this is not relevant to the question of whether a landlord should receive an additional incentive - that they did not have and were not due to have before the budget - to evict a tenant using the grounds of substantial refurbishment and also in being able to benefit from a tax incentive in this instance. I do not know if the Minister has a better answer or response as to why this measure will not lead to increased evictions. If the Minister does not have a better answer, then those listening to this debate would have to conclude that it is likely the measure is some additional incentive being provided for landlords to evict tenants. Given the scale of the housing crisis it is a pretty poor decision for the Government to make. I

accept that this is not the reason or the purpose for which the Government is making this decision but it seems to be a pretty clear inadvertent consequence of that measure, which has now been flagged, and the Government should pull back from going ahead with it at the time of this housing crisis.

We will discuss the broader question of social housing and if the Government builds enough of it. This is to be measured in actual bricks and mortar, and in the numbers of houses delivered. So far the Government falls dramatically short, not just marginally short, of what was promised and is needed. Unfortunately I do not believe this is going to change. We will see, but as with Fianna Fáil, the Government is ideologically committed to incentivising in various guises the private sector to deliver housing as opposed to the massive State investment that is needed. The Government likes to deny this but it is seen in the evidence of what it does.

I will now deal concretely with the measure in front of the committee today. Even if it was the case that the Government was doing everything necessary in respect of social housing, given the current state of the rental market I would still be opposed to giving €18 million extra to landlords in a tax relief. Even if there was some positive incentive there is clearly a massive deadweight involved. Given the levels of profits that exist for landlords there is no crisis of profitability. I referred earlier to the highest rental yields in the European Union. The figures in the CSO national income and expenditure accounts indicate that the total amount spent on rent was €3 billion, and this is taking out imputed rent in the 2017. This compares to €1.6 billion in 2010. That is almost a doubling of income going to rent in this State over the course of seven years. That money comes from workers' pockets. This transfer of wealth is already taking place, but it is now added to by this measure.

The Minister said that if we do not keep giving more incentives to the landlords, and not just the incentives that already exist, landlords will exit the sector. This has echoes of the argument made around corporations, that is, that these corporations will leave if we increase corporation tax, or if we tax them even at the 12.5% we are supposed to. I would be in favour of increasing the corporation tax. Whatever water that argument holds in relation to mobile corporations such as Google, Facebook, Apple and so on, a landlord can exit the sector but the house still exists. The landlord cannot take his or her house or apartment elsewhere. It remains in the market in some form or other. It is true that it could go from being a private rented unit to being owner occupied but that is precisely where the State steps in. If landlords are seeking to exit the sector, and I do not believe there is any evidence for that because the profits in the sector are so massive, the State should be buying those properties and using them for social housing. There is a massive need for social housing. If that is the issue then it can be dealt with. Landlords cannot take their properties and go off somewhere else with them. The properties exist and are part of the housing market. They are not able to move away from that. The argument that every year we should just throw more and more money to landlords does not hold water.

Deputy Pearse Doherty: The Minister mentioned that 82% of landlords had two or more properties, but I think it is two or fewer properties. There were a large number of accidental landlords, these being people who entered the market during the boom period. It is very clear that the Government cannot handle the housing crisis, nor has it been able to get a grip on it during the boom, the bust or into the recovery period.

The Minister said in his Budget Statement that we are making sufficient resources available to meet the demand. He said that with a straight face and I do not know how he pulled it off. There is no way the Government is making the necessary resources available to meet the current needs. There is not a chance of that. If God spares us and if next year, in whatever

capacity, we are debating the matter in the Select Committee on Finance, Public Expenditure and Reform and the Taoiseach, I can guarantee that the Government will not have got to grips with the housing crisis nor with the fact that so many people are in need of social housing and so many younger people and couples are unable to get into the property market. Whereas the indications are that the State is increasing the level of building, and there is increased building, it is nowhere near the level necessary to deal with current levels of demand, not to mind catching up because of the lack of investment for years.

If the Government was genuinely going to drive the issue, instead of letting its ideological viewpoint direct the housing response, we would not have a situation where the Minister is a major shareholder in one of the banks and a substantial shareholder in two other banks, which combined hold 1,000 properties that are lying vacant as we speak. The banks did the same thing last year. Every time the banks come before us I ask them to state the number of vacant properties on their books. They will tell us the number. I was coming into the office today and there was a radio advertisement where a mother in a hotel room was talking to her child about the house they may have, and then she breaks down. I do not know the context of that advertisement, but that is indicative of where we are at. The budget completely fails to deal with the housing crisis. The Bill has the potential to do the opposite.

It is not as if the Government has been given one go to deal with the crisis. The Government has been in office for years, but the housing crisis is getting out of hand and is getting worse. The budget is the time we decide how we allocate resources and we speak of our values as a nation.

We will come to different sections as we progress through the Bill, for example, the intangible assets and bringing them onshore. The Chairperson of the Irish Fiscal Advisory Council stated to our committee that the 80% cap should apply from a time three years ago and this would bring in €750 million. The Minister does not want to do that. A sum of €750 million could go a long way to meeting some of the needs of families. The Minister could, for example, bring in genuine rent relief. Such a measure, which we argued for in our alternative budget, could provide relief during a three-year period until we would deal with increasing the supply of housing. This would allow options for people in the sector to be able to get rent relief equivalent to one month's rent per annum. The Minister decided not to do that but instead he has given a tax break to those renting out property, designed from the pens of Fianna Fáil. That does not make sense.

I mentioned the Tory party across the water. Even its members are saying the opposite and are going in the opposite direction from the Minister. The Minister is proposing more incentives to landlords, despite the fact that landlords have never charged higher rents to tenants in the history of the State. Despite that, the Minister is proposing more incentives to landlords, whereas in Britain they are getting rid of mortgage interest relief completely and it will go by 2021. It is a profitable sector.

There are statistics from the Residential Tenancies Board that show that a number of landlords are leaving the system because of registration. They also show that there is a concentration of properties in certain hands. There is another factor, which is that if house prices continue in the present direction, they will reach peak again and there will be an incentive for some accidental landlords to sell up and cash in on a property they never wanted. People who bought a second property as an investment for their pension or for the benefit of their children are cashing in now. This is a bad idea. The Minister did not address the issue of conditionality. At the bare minimum there should be conditionality. We have 100% tax relief for landlords, but those

landlords must take housing assistance payment, HAP, tenants. There is a social good in that. Incentives should be based on changing direction or a social good. The reality is that the only social good in this provision is that the landlords will have deeper pockets. Landlords will be incentivised in some cases to evict their tenants. There is nothing to ensure security of tenure for individuals. The tax relief incentive for participating in the HAP scheme will finish once the Finance Bill is enacted. Some landlords who were getting 75% mortgage interest relief decided to participate in the HAP scheme to get 100% relief, but there will be no incentive for them to continue because of what the Minister is doing.

The Government is out of touch with what is required to deal with the housing crisis and the point is that as the months roll on we will hear the number. Right now we can decide how we can generate additional resources so as to ensure we allocate those resources to get to grips with the housing crisis. This is where the Minister is completely and utterly failing. The Minister has not failed just this year. I am speaking to the Minister as a member of the Cabinet which takes collective responsibility, and the Minister for Finance has failed in each of the years in the past seven years. There is no other reading of the situation. The current Minister is going to continue to fail because of the type of measure he is coming up with.

Will the housing situation be eventually resolved? Of course it will and then the Government will beat the drum and say it sorted it. The point is that we as legislators should not wait for the market to deal with it when it will become so profitable for them that they will start to build houses. We need to intervene. There is a complete market failure, but the Minister is not willing to intervene.

We talk about rent pressure zones. The European Commission published a report earlier this year stating that rent pressure zones were not working. The data show that rents are rising through the roof. That is why families cannot afford to make ends meet. Look at some of the accommodation that is offered on the websites. We have crowded accommodation that is appalling. This strips bare what the Minister and his party stands for. It exposes the ideology of the party in terms that the market will decide what we need to solve this problem. It has been tried before, with help to buy schemes, extra incentives to landlords, and extra incentives to developers. What we need is the State to intervene in a meaningful way with the necessary resources to meet the proper targets and not what was announced in this year's budget. We need the Minister to intervene as the major shareholder in AIB. What is he doing to make sure vacant houses are not being held by banks in this State like AIB, Permanent TSB and Bank of Ireland? They did not appear in the last year. They have been doing it for the last number of years. There is a housing crisis right before us.

I would like to respond to the comments that have been made about homelessness in Dublin by referring to what has been happening in recent days. Families with children are walking the streets and looking to self-accommodate, but they cannot get accommodation. Banks are holding onto empty properties that we own. It is absolutely immoral. It reminds me of Christy Moore's great song about the Famine - I hope the Minister knows it - which describes how we shipped our food off in our boats to Britain at a time when people here were starving. The Minister needs to get to grips with this. He has direct responsibility. As Minister for Finance and as the major shareholder in the banks, he can take serious initiatives to make sure some of these houses are released. The wrong decision has been made. As I said earlier, conditionality should be inserted into this measure as a bare minimum.

Deputy Richard Boyd Barrett: As the Minister has said, we have debated this at length. Sadly, we are going to continue to have to debate it. The Minister for Housing, Planning and

Local Government acknowledged recently that the housing crisis has not peaked. While this is a very grim prospect, all of us in here know it is true and everybody else fears it is true. It is difficult to imagine a situation that is worse than the one we have now. The Minister, Deputy Eoghan Murphy, has admitted frankly that the housing crisis is going to get worse. That is a pretty hopeless space for us to be in. It is a national shame that the people at the acute end of this crisis are in homeless accommodation. Children who are being brought up in these circumstances go to school without knowing whether they can face the humiliation of telling their classmates they live in homeless accommodation. They are unable to bring their friends home to play or for sleepovers. Every one of us is dealing with families in these circumstances. I am sure the Minister is dealing with these families as well. It is shameful. It pushes us towards despair when we are in our clinics. Floods of people who are facing these desperate circumstances keep coming to see us in the hope that we can offer them some hope. However, the situation is continuing to get worse.

The private rented sector is the issue in almost every case. That is where these people come from. They have found themselves homeless because of the private rented sector. When people who are in this dire situation go to the council, in some cases after two years or more in emergency accommodation, they are told to find a HAP tenancy in the private rented sector. Such tenancies might well exist in places throughout the county where the crisis is not as acute, rents are lower and HAP limits mean something, but in those areas where the crisis is most acute and rent levels are way in excess of the HAP limits, we might as well tell people to go to Mars as tell them to find HAP tenancies. All we can do in such areas is beg the council to increase the HAP limits to a more appropriate level. While we have no choice other than to pursue such an approach in the immediate sense, it is a disaster in the macro sense. This point applies to the Minister's entire housing plan. Approximately 80% of that plan depends on the private rented sector. It is not a solution. The Minister has said that the direct provision of council housing is going to ramp up. Given that we are starting from a base of almost nothing, of course the percentage will look impressive if the figure increases to 4,000. Having been at a point where very few council houses were being built, we are now hoping to get up to levels which will not come anywhere close to matching the scale of the crisis.

The vast majority of the solution being offered by the Minister involves the private rented sector. If it succeeds, the public finances will be looted on a massive scale. I asked him about this the other day. Has he calculated what will happen if Rebuilding Ireland works and he gets the 100,000 social tenancies he is hoping to get from the HAP, RAS and leasing schemes? How much will that cost the State over a period of 20 or 30 years? The amount of money it will cost is terrifying. Between €30 billion and €40 billion will be going out over that period of time. That money could and should be used to invest in the construction of public housing on a massive scale. Of course the upfront capital investment would be significant, but it would save the State money in the end while providing a much more secure and genuinely affordable form of public housing at the same time. People living in such houses, unlike every single HAP tenant, would not have to run the risk of the landlord pulling out of the HAP tenancy whenever it suits him or her. Even if it works, 80% of the Government plan will depend on a precarious form of social housing which will continue to produce a stream of people going into emergency accommodation. In addition, it will cost the State a fortune. In fact, it will blow a massive hole in the public finances over the long term. The Minister, having failed to acknowledge that this is madness from any point of view, is now going a step further by giving a further tax incentive to these people, which signals that he believes they can help us to solve the housing problem even though that is absolutely not the case. There is not even a link with affordability.

I would like the Minister to answer a question I asked earlier. Does he recognise that rents are out of control? What is the purpose in this case of incentivising a supply of rental property which is unaffordable? I repeat that I would like to know what the point of that is. Does the Minister think rents will decrease because of it? If he does, he is living in cloud cuckoo land. It is not going to happen. These guys are pushing for rent increases all the time. The Minister intends to incentivise them to move into this market. The only reason they will do so is that they can command these massively high rents, which are useless to anybody. In the case of the HAP scheme, the State is not even willing to pay these rents. If such rents are paid, they will blow a black hole in the public finances. They are completely unaffordable for the vast majority of people looking for rental property. I will repeat the question I asked earlier. Who can afford a monthly rent of €2,200? One would want to be very rich to afford it. Such rents are being sought in vast swathes of Dublin, where the crisis is most acute. What is the point of this approach? The Minister has said he fears that some of these people might pull out of the rental market. Deputy Paul Murphy provided an answer to that when he said that the houses will remain. These people cannot take them away. They cannot put the houses in a suitcase and get on a plane with them. If it is the case that these people might leave houses sitting empty, as many of them are doing because they do not want the hassle of tenants and prefer to make easy money, we need to put in place severe laws that make it illegal for people to sit on empty properties that could be used for residential purposes, or impose punitive taxes for so doing. That is how we should deal with the problem.

Deputy Joan Burton: I want to ask the Minister about the Home Building Finance Ireland Bill 2018, which was passed by the Dáil in February of this year having been announced with quite a fanfare. I felt it could be helpful. It would allow a single individual on approximately €50,000 or a couple on up to €75,000 to purchase either a new or second-hand home on the condition of being a first-time buyer. There has been a fair bit of interest in that Bill.

The Minister was optimistic about how matters were. A report published yesterday showed that, across the four Dublin local authorities - I do not know about places like Donegal and the rest of the country - including the two local authorities within my constituency, those being, Dublin City Council and Fingal County Council, only 60 mortgages had been drawn down despite there having been more than 1,000 applications for the Rebuilding Ireland home loan since it was launched to considerable fanfare. I am discussing areas that the Minister and I know well, for example, newer developments in Dublin 15 and low-cost housing that could be identified as doer-ups in various parts of Dublin 7. It is feasible, particularly if one or both parties have relations in the building trade who can help with doing up the property. In much of Dublin 15, one can just about scrape by and get a mortgage of €300,000 on a 30 or 40 year old three-bedroom house that requires doing up. I am in favour of that. As I am sure the Chairman is aware, there were in previous decades low-rise mortgages all over Ireland, particularly Dublin, as well as rent-to-buy and shared ownership arrangements. For instance, many Army privates bought in places like Dublin 15, Carlow and Kilkenny to house themselves and their families. I am in favour of a return of that approach. Instead of houses falling into the hands of just some landlords because others have been forced by banks to sell because the value of the property has risen, they have the possibility of selling to an individual or couple who want to buy the house for their home. That is positive socially. To put the icing on the cake, such a couple in an area like St. Mochta's in Dublin 15, which the Minister knows well, would be lucky to rent a three-bedroom house for between €1,200 and €1,400 per month but could get a mortgage at a monthly cost of €800 or €900. The figures outside of Dublin are better, as rents there are not quite as high.

I appreciate the Minister's positivity and goodwill towards the housing market, but he funds this departmental scheme. It is finance based in order to allow people to purchase after saving up large amounts. This is part of the dysfunction of the market. The cost of a mortgage is significantly below that of renting. If that is not a broken market, I do not know what is.

Many people are interested in this scheme, but I know some who have been turned down. I do not know whether the officials working in the Department of Housing, Planning and Local Government or the councils understand the economics of people's ordinary lives. For example, I know of a well-established tradesman who is married to someone who has a well-established small hairdressing business. They have one child but do not have large childcare costs because their child is in fourth class in primary school. They were passed for this scheme but were turned down overall. I do not know why because everything about their income and so on stacked up.

There is a problem with Government leadership, in that it is not facilitating. The Government is all about spin and there is not enough information on this scheme to help people, including civil servants on lower wages in the Minister's own Department who might be ideal candidates for the starter element of this scheme. It does not add up. The Government launched the scheme and it received great publicity. I have been trying to track how many mortgages have been drawn down, but I could not find any for a long time. I wondered whether the scheme was even operating. Now I am told that the number of mortgages drawn down is 60 out of more than 1,000 applications. What else can I say about how dysfunctional everything has become?

Many of the accidental landlords who were referenced are being forced to sell by the banks. Could someone take note and check to see what the problem is with the scheme so that we can get people to take it up? These are families who, instead of renting, would like to get on the property ladder. Every previous scheme was able to function, so I cannot understand why the Government cannot get this one to do so.

Many people want to quit being landlords. If the Government remains unable to address a dysfunctional and failed market, this tinkering around will not do much to incentivise them to stay in the scheme.

Deputy Michael McGrath: This is a particular narrow issue within a much wider crisis. The context is the need for much greater capital investment in affordable housing, social housing, cost rental and so on. On this issue, though, there is no getting away from the fact that, given the RTB figures, there has been a reduction of 2,000 in the number of tenancies and almost 3,000 in the number of landlords in 12 months. Where are the people who were in those properties 12 months ago today? Some are in emergency accommodation, be it a family hub, hotel or something else. I do not think that anyone present has said interest should not be a legitimate deduction, although the rate can be argued. I believe it is a legitimate deduction for what is a trade or business and should be at a rate of 100%. When one speaks to landlords who have left the market, they say that they did so because of the hassle of being a landlord of just one or two properties or because their properties were loss making and they were paying tax on a loss, which is the reality for many landlords in the market.

This provision is a modest measure and will make some difference to a certain number of landlords to help them stay in the market. It is not going to turn the crisis in the other direction though. The 3,000 landlords who left the market in 12 months are not the big institutional investors or the REITs, they are the people who own one or two properties. In addition to having blocks of apartments bought by investors, we need to have rental properties peppered around

the place in every housing estate. There needs to be a supply that is diverse and spread throughout rural and urban Ireland. Those are small, domestic landlords who actually own the properties. From our point of view, interest on a mortgage associated with an investment property is a legitimate deduction. Being a landlord is a business and it should be treated as a legitimate deduction in that regard. The easiest thing in the world is to vilify landlords. We talk about a housing crisis and we need builders to build houses. We talk about the rental market and we need landlords to provide supply in a rental market. This is a very modest step. It will not turn the crisis in the opposite direction but it will help.

Chairman: Does section 21 stand part of the Bill?

Deputy Paschal Donohoe: May I respond?

Chairman: Yes, if the Minister has something to say, he should go ahead.

Deputy Paschal Donohoe: I have something to say. I am not quite sure who to believe. Deputy Burton, on the one hand, thinks I am tinkering around the edges. On the other hand, Deputy Paul Murphy - and, to a lesser extent, Deputy Boyd Barrett - thinks this is a big bonus to the rental sector and will cause significant difficulty. Both Deputies cannot be right. What this measure-----

Deputy Joan Burton: I am going operating on the basis of an objective report that the Minister and his officials can read.

Deputy Paschal Donohoe: We are hearing differing views----

Deputy Joan Burton: What I am saying is not supposition, it is factual reporting.

Deputy Paschal Donohoe: -----by two Deputies on it.

Deputy Joan Burton: The Minister should not be overly smart. It is factual reporting.

Deputy Paschal Donohoe: As I have said-----

Chairman: The Deputy should allow the Minister to respond.

Deputy Paschal Donohoe: As I said, I am not sure which Deputy is correct.

Deputy Joan Burton: Get the report.

Deputy Paschal Donohoe: This is an attempt by me, through a very targeted measure, to address the issue to which I referred earlier. I am not being unduly positive. I am not trying to sound in any way inappropriately optimistic about the level of need that exists or about the level of anxiety that I know this issue causes for many. I am stating some facts in addition to the other facts that are being presented by Deputies. The fact I am stating is that the number of homes being built in our country is increasing. It will go up again next year. We are building more social homes directly than was the case in recent years. We will build more this year than the year before. We will look to build more across the coming period. We are committed to delivering that. Amid the level of need to which the Deputy is referring, there are also many other needs that she expects me to meet; for example, in the context of our healthcare and education systems. What I try to do on behalf of Government is allocate the proceeds of what we raise through taxes to fund those competing demands. My contention is that there has been a significant increase in funding this year. These are the facts. There has been an increase in

funding. We will see more homes being built. We will also see a growing number of homes being delivered through either social housing solutions or direct build from the State. If Deputies are entitled to express their values and acknowledgment regarding the level of worry and pain that is being caused to citizens, then I am equally just stating the fact that in a number of areas, through resources we are making available or changes in homes that are being built, progress is being made and that we need to make more and do more. I see at first hand the issues the Deputy is referring to. I see them every day. They are a reminder to me of what further progress needs to be delivered.

Deputy Boyd Barrett asked me for my view on rents. I acknowledge that rent levels are too high for many families and citizens. I want them to stabilise and be affordable. There is a certain kind of landlord that we need to keep in the sector and, unlike the Deputy, I am of the view that private landlords have a role to play. It is not my role to offer, on behalf of the taxpayer, resources to landlords that are too high. However, the latter have a role to play. This is a really targeted measure that looks to treat expenses in other kinds of businesses for small business owners in the same way for landlords expenses regarding mortgage interest. That is all it seeks to do. As I have said on a number of occasions, my view, on the basis of engagement I had with my Department, is that this can contribute to keeping a certain kind of landlord in the sector. In the absence of such landlords, the level of social need we face could increase even more. That is why I am making this decision. One can decide that it is right or wrong, but that is why I am doing it and that is why I have put it in place. That is the rationale behind it.

On the question Deputy Burton posed about the scheme, I will come back to her on the drawdown to which she refers. I imagine the reason is the amount of time that has to elapse for the evaluation of mortgage applications but I am not aware of the latest figures the Deputy referred to - I was not here during the week - but I will follow up on it and come back to her with a note on it. There should be a good reason for the issue the Deputy raised. If there is one, I will find out what it is and come back to the Deputy on it.

On the point Deputy Pearse Doherty put regarding my values and my role in this, I fully accept my role as a member of Government in respect of where we stand from the point of view of housing. However, I will point to the funding we are putting into housing and the variety of policy measures that are being put in place beyond this very narrow measure we are discussing. It is my contention that, in its totality, this represents a Government looking to fully understand this issue and looking to make a very significant further effort to deal with this issue in 2019 and beyond.

Chairman: Deputy Pearse Doherty has indicated. I will allow a short question or intervention but I will not have this debated over and over again.

Deputy Pearse Doherty: That is okay. I appreciate that we have to move on.

We have had this debate nearly every year in the recent years and we have the same response from the Minister for Finance, namely, that efficient, necessary resources are going in to deal with the crisis. The reality is very different. I acknowledged there has been a reduction in the number. Many of those people who have left the sector owned houses that are now owned by the banks and which are lying empty. The Minister did not respond to that. He is the Minister. He is the person who holds the shareholding in AIB on behalf of the Irish State. He is the person who holds the shareholdings in Bank of Ireland and Permanent TSB. There are 1,000 houses lying empty. The Minister talked about facts. These are the facts. I am not disputing the Minister's facts but let me tell him other facts. Michal was the 27th homeless person to

die on our streets in the past 16 months. He died this week. That is appalling. When Jonathan Corrie died four years ago across the road from Leinster House the whole nation was talking about it. We all knew his name because it was so close to the seat of power and it was unique. Unfortunately, it is no longer unique because 27 homeless people have died on our streets in the past 16 months. This Christmas, 4,000 children will spend Christmas in emergency accommodation. That does not rest with an act of God. The Government decided in the past and has decided now that the market will sort this out and that it will provide resources, but not a sufficient amount, to deal with this issue. That is the reality and it may be painful for the Minister to hear. I know him personally and that he is a good person but the reality is that the policies the Cabinet is introducing has made this crisis worse. I would not be doing my job if I did not point that out, and I will continue to point that out every single bloody year until we sort this out. We are far better than this, far better than seeing citizens, whose names we do not know, dying on our streets because they have no homes. We can take collective action to gather the necessary resources and deal with this issue on an emergency basis. This measure is not greatly significant in the overall context. It is an example of where the Government is at in addressing this issue. It is that market ideology that is making this crisis worse. People do not have the time. Michael did not have the time and the other 26 people who died in the past year and a half did not have the time. Major damage, emotionally and psychologically, is being done to children across this State because of their living conditions.

Deputy Richard Boyd Barrett: I will make a brief comment as we have had this discussion. Unfortunately, the discussion has had to move on to the streets because I do not believe the Government really gets it. The anniversary of Jonathan Corrie's death will be on 1 December. The National Homeless and Housing Coalition, which was set up in response to his death and held a vigil outside the Dail two years ago, has called for another national demonstration for 1 December, following the 3 October Raise the Roof protest. People protested on 3 October in the hope that in this budget the Government would change tack, and that it would encompass a radical move to address a crisis that the Minister with responsibility for this area has acknowledged has not peaked. This may be one of the few opportunities in the debate on this Bill that we get to discuss what could have been included in the budget to provide for housing. This amendment sticks in the craw because even though it is a relatively small one, it is part of an approach the Government seems to be taking underpinned by a belief that the private rented sector will substantially help us to solve the problem when in fact it is the dysfunctionality of the private rented sector and of the private market generally which has helped generate some of the worse aspects of the crisis. We accept, for the time being at least, that there will be private landlords and some of them will provide accommodation that will assist in addressing the situation but the problem is that it is not a secure sustainable basis to solve the crisis. The bulk of the Government's housing plan, Rebuilding Ireland, depends on this sector and the bulk of the Government's policies seem to be focused on supporting, incentivising and pandering to people who see the provision of accommodation as a means to make money. It is that commodification of housing that has reached very extreme proportions in Ireland that is at the base of the current crisis. That is the frustration. There is nothing in what the Minister said that gives me much hope that the Government will change tack.

Deputy Joan Burton: I will be brief. I am delighted the Minister will follow up on the fact that while 1,000 applications were received under this measure only 60 loans were drawn down. He has oversight of our national finances. A great deal of public relations effort and promotion was put into the launch of that measure which has resulted in only resulted 60 loans being drawn down. I am referring to people buying houses supported by a loan to the value of €240,000 to €280,000, depending on which part of the country the person is living in, plus their

deposit. We are talking about the middle to the lower end of the private housing and usually the second-hand market and “doer-uppers”. The price of many of the new builds in Dublin 15 and Dublin 7, which I am sure the Minister is familiar, is around half a million euro. That is the price to which they have moved. I draw the Minister’s attention to the new houses being built on the main road in Glasnevin. I believe they will cost much more than that, possibly €600,000. We have a responsibility to people on relatively low incomes, teachers, nurses and civil servants starting out in their careers. Something is going fundamentally wrong in Irish society when people like those who are working hard and contributing to the economy have little, if any, hope of buying a house. The Minister can disagree with my views on that but socially that is a disaster.

Deputy Paschal Donohoe: Deputy Pearse Doherty evoked the recent death of Michael and also mentioned the deaths of all the other citizens who have lost their lives through homelessness in our State during the past year. I have to offer their families and communities more than just my sympathy. I must offer them what we are seeking to do to respond to their loss. As part of this budget, I have made between €40 million and €60 million available to respond to that level of need by this Christmas. When I stand in front of projects such as O’Devaney Gardens that are being built and in front of hubs being turned into homes and accommodation in the part of the country I know best for people who are homeless, that is my response to that issue. That is what I am seeking to do to respond to the tragedies to which the Deputy has referred. Their loss of life is something to which I must respond in more than mere words. In this budget and in recent budgets I have introduced that is what I have sought to do. The fact that we have seen a reduction in rough sleeping does not offer me any comfort, rather it demonstrates the reason we need to reduce it even more. As a rich democracy we must get to a point where all those who are homeless have the option of a bed and accommodation. The Minister, Deputy Eoghan Murphy, has stated that is his objective and in decisions we have made in this budget we have sought to back that up.

Regarding Deputy Boyd Barrett’s comments, I do not believe that free markets can operate in such a way to meet social need on their own. Neither do I believe his claim that a person earning a living from providing housing to somebody in and of itself commodifies the supply of housing. Private landlords and the private sector has a big role to play in providing homes. No state on its own can meet the level of housing need its citizens have without doing many other things that, in my view, would be unacceptable to their citizens. We need to have a mixed market responding to that. It is a small measure which looks to prevent a further type of landlord leaving this sector. If we have the honour to be back here in this room in a year’s time and even more landlords have left the sector, the Deputy will be asking me why I did not do more to stop it happening. I am trying to do that.

Question put.

The Committee divided: Tá;, 5; Níl, 2.	
Tá;	Níl;
Burke, Peter.	Murphy, Paul.
Deasy, John.	O’Brien, Jonathan.
Donohoe, Paschal.	
McGrath, Michael.	
McGuinness, John.	

Question declared carried.

SECTION 22

Question proposed: “That section 22 stand part of the Bill.”

Deputy Paschal Donohoe: Section 22 amends the provision governing rent-a-room relief in section 216A of the Taxes Consolidation Act 1997. The purpose of the measure is to ensure that the relief operates as intended to increase the supply of residential accommodation provided on a home-sharing basis. Rent-a-room relief was introduced in 2001 as an incentive to increase the supply of residential accommodation for rent. The amendment is an anti-avoidance measure that puts beyond doubt that the relief does not apply to short-term tourist accommodation based on home-sharing, including that provided via Internet booking sites. The amendment introduces a minimum continuous rental period of 29 days to exclude tourist-type lettings from the incentive expressly. It will not affect the existing application of rent-a-room relief to certain types of shorter term residential accommodation that are not leisure or business related. These include the provision of accommodation for respite care, language students or four-day-a-week “digs”.

The section introduces a new subsection (3C) into section 216A and provides that the relief will not apply to that part of the income that arises from stays shorter than the minimum continuous rental period of more than 28 days. The subsection also provides legislative confirmation for the existing Revenue position that income from certain short-term lets, including lettings for respite care for incapacitated persons, accommodation for full or part-time students, including language students, and four-day-a-week digs, qualifies for the relief notwithstanding that the stay may be of shorter duration than the new minimum period. The new subsection also provides that, where the income arises from stays of shorter duration, Revenue may seek proof from the individual availing of the relief that the accommodation was provided for respite care or students or as digs. The section will apply for 2019 and subsequent years.

Question put and agreed to.

SECTION 23

Chairman: Amendments Nos. 20 to 100, inclusive, 102 to 106, inclusive, and 109 to 112, inclusive, are related and will be discussed together.

Deputy Paschal Donohoe: I move amendment No. 20:

In page 31, line 5, to delete “relief” where it secondly occurs and substitute “a deduction from total income”.

I am tabling a number of amendments to section 23. The majority of these are simply addressing drafting errors in the Bill as initiated. This grouping of amendments includes only those amendments that are correcting essentially typographical and drafting errors. Three substantive changes set out in amendments Nos. 101, 107 and 108 are being addressed separately.

There are 89 typographical and drafting corrections. It is not ideal to have so many such changes. However, I hope Deputies will forgive this, particularly in light of the expansive nature of the new text of Part 16. For obvious reasons, the revised text could not have been shared with stakeholders prior to the publication of the Bill and in the short period since, the text has

been subjected to a great deal of scrutiny by these expert stakeholders.

Deputy Paul Murphy: Who are the expert stakeholders? If the Minister does not want to give their names, what type of stakeholder are we discussing?

Deputy Paschal Donohoe: When we published the text, we received feedback from accounting companies through the Tax Administration Liaison Committee, TALC, but the only changes we are making in response to that kind of contact are drafting ones.

Deputy Paul Murphy: Okay.

Deputy Paschal Donohoe: This group of changes is being made on a no-policy basis. Three other amendments will involve some change, but I will deal with them separately.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 21:

In page 31, line 6, to delete “forgoing” and substitute “foregoing”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 22:

In page 31, to delete lines 13 to 16 and substitute the following:

“(2) In this Part a reference to relief under this Part is a reference to, as the case may be—

(a) relief as provided under this Part as it operates by virtue of section 502 or, where the context admits, as it operates by virtue of section 503 or, as appropriate, section 507, or

(b) relief as provided under all of those sections.”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 23:

In page 32, line 14, to delete “linked business” and substitute “linked businesses”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 24:

In page 32, line 17, to delete “partner business” and substitute “partner businesses”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 25:

In page 32, lines 38 and 39, to delete “this Chapter” and substitute “section 491”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 26:

In page 35, line 22, to delete “section” and substitute “subsection”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 27:

In page 35, line 34, to delete “section” and substitute “subsection”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 28:

In page 38, lines 5 and 6, to delete “to a qualifying individual”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 29:

In page 38, line 6, to delete “launching a new product or entering” and substitute “entering a new product on the market or entering”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 30:

In page 38, lines 8 and 9, to delete “to a qualifying individual”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 31:

In page 38, lines 11 and 12, to delete “to a qualifying individual”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 32:

In page 38, line 23, to delete “a preference dividend” and substitute “preferential rights to a dividend or to repayment of capital on a winding up”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 33:

In page 39, line 23, to delete “A qualifying” and substitute “In this Part, a qualifying”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 34:

In page 39, line 33, after “company,” to insert “and”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 35:

In page 39, line 34, after “acquisition” to insert “(other than by way of subscription pur-

suant to section 490(4)(b))”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 36:

In page 40, line 1, to delete “proportion” and substitute “portion”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 37:

In page 40, lines 19 and 20, to delete “was a qualifying investment by a qualifying investor” and substitute the following:

“involved the issue of eligible shares on or after 6 April 1984 in respect of which relief was available under this Part”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 38:

In page 41, line 2, to delete “excess,” and substitute “excess over that amount”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 39:

In page 41, line 19, to delete “excess,” and substitute “excess over that amount”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 40:

In page 41, line 37, to delete “A subscription” and substitute “Subject to section 598J(1), a subscription”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 41:

In page 43, line 15, after “section” to insert “and section 501”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 42:

In page 44, line 12, to delete “service,” and substitute “services”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 43:

In page 44, line 20, to delete “For” and substitute “Subject to subsection (6), for”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 44:

In page 44, line 22, to delete “associate” and substitute “associate,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 45:

In page 44, line 24, to delete “ordinary”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 46:

In page 44, line 25, to delete “and issued share capital”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 47:

In page 44, line 29, after “paragraph (a)(ii)” to insert “and section 505(4)(b)(ii)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 48:

In page 45, line 33, after “concerned” to insert “, or an associate of that individual,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 49:

In page 45, line 34, after “individual” to insert “or that associate, as the case may be,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 50:

In page 46, line 19, after “company” to insert “, or a qualifying subsidiary as the case may be”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 51:

In page 46, line 23, after “company” to insert “, or a qualifying subsidiary as the case may be,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 52:

In page 46, line 27, after “company” to insert “, or a qualifying subsidiary as the case may be,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 53:

In page 46, line 30, after “company” to insert “, or a qualifying subsidiary as the case may be”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 54:

In page 46, line 38, after “company” to insert “, or a qualifying subsidiary as the case may be,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 55:

In page 46, line 43, after “company” to insert “, or a qualifying subsidiary as the case may be,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 56:

In page 47, to delete all words from and including “or,” in line 7 down to and including “activities” in line 10.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 57:

In page 47, line 14, after “given” to insert “, subject to section 508J(4),”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 58:

In page 47, to delete lines 21 and 22 and substitute the following:

“(3) In a year of assessment the maximum qualifying investment in respect of which an investor may claim relief under this Part is €150,000.”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 59:

In page 47, line 35, after “assessment” to insert “prior to the year of assessment”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 60:

In page 48, line 7, to delete “partner businesses or linked businesses” and substitute “partner business or linked business”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 61:

In page 48, line 17, after “*entrepreneurs*” to insert “(*SURE*)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 62:

In page 49, line 18, to delete “paragraph (b)” and substitute “paragraphs (a) and (b)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 63:

In page 51, line 16, to delete “period mentioned in subsection (4)” and substitute “compliance period”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 64:

In page 52, to delete lines 3 to 6.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 65:

In page 52, to delete line 7 and substitute “(4) In subsection (1), references to a company’s trade include”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 66:

In page 52, line 11, to delete “investment,” and substitute “investment”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 67:

In page 52, line 27, to delete “subsection (2)” and substitute “subsection (1)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 68:

In page 53, line 5, to delete “subsection (2)” and substitute “subsection (1)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 69:

In page 53, line 31, after “865(4)” to insert “or section 959V(6)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 70:

In page 53, line 39, to delete “subsection (2)” and substitute “subsection (1)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 71:

In page 54, lines 11 and 12, to delete “of the qualifying investment”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 72:

In page 54, line 22, after “assessment” to insert “with relief under section 502(2)(b) given in priority to relief under section 502(2)(a)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 73:

In page 54, line 24, after “investor” to insert “, or managers of a designated fund as the case may be,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 74:

In page 54, line 38, to delete “in respect of the individual” and substitute “where the investment is made by an individual”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 75:

In page 54, after line 39, to insert the following:

“(iv) where the investment is made through a designated fund, the designated fund’s name, address and tax reference number,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 76:

In page 55, line 1, to delete “(iv) the date” and substitute “(v) the date”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 77:

In page 55, line 3, to delete “(v) the amount” and substitute “(vi) the amount”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 78:

In page 55, line 6, to delete “(vi) such other” and substitute “(vii) such other”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 79:

In page 55, line 17, to delete “**follow-on**” and substitute “**second stage**”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 80:

In page 55, line 18, after “investor” to insert “, or managers of a designated fund as the case may be,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 81:

In page 55, line 19, to delete “follow-on” and substitute “second stage”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 82:

In page 55, line 21, to delete “follow-on” and substitute “second stage”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 83:

In page 55, line 26, to delete “follow-on” and substitute “second stage”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 84:

In page 55, line 33, to delete “in respect of the individual” and substitute “where the investment is made by an individual”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 85:

In page 55, between lines 34 and 35, to insert the following:

“(iv) where the investment is made through a designated fund, the designated fund’s name, address and tax reference number,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 86:

In page 55, line 35, to delete “(iv) confirmation” and substitute “(v) confirmation”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 87:

In page 55, line 37, to delete “(v) the amount” and substitute “(vi) the amount”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 88:

In page 56, line 1, to delete “(vi) such other” and substitute “(vii) such other”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 89:

In page 56, lines 4 and 5, to delete “follow-on” and substitute “second stage”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 90:

In page 56, line 7, to delete “follow-on” and substitute “second stage”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 91:

In page 57, line 8, to delete “conditions” and substitute “condition”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 92:

In page 57, line 23, to delete “30 days of the share issue date” and substitute “60 days of the date referred to in section 508A(3)(a)(v)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 93:

In page 58, lines 29 and 30, to delete “section 508A(3)(iv), or the date of the statement of qualification (follow-on relief)” and substitute “section 508A(3)(a)(v), or the date the conditions set out in section 508B(4)(a) are satisfied”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 94:

In page 58, to delete lines 31 to 39, and in page 59, to delete lines 1 to 4.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 95:

In page 59, to delete lines 15 to 27.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 96:

In page 61, line 21, to delete “an officer of”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 97:

In page 61, to delete all words from and including “required—” in line 27, down to and including “(b) the claim” in line 30 and substitute “required the claim”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 98:

In page 62, line 28, to delete “sections 508M, 508N and 508R” and substitute “section 508M”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 99:

In page 68, to delete lines 13 to 20 and substitute the following:

“(7) Where an individual receives value from a company during a compliance period, then the amount of the relief to which that individual is entitled shall be reduced by the value so received.”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 100:

In page 69, line 28, to delete “specified” and substitute “compliance”.

Amendment agreed to.

Chairman: Amendments Nos. 101, 107 and 108 are related and may be discussed together.

Deputy Paschal Donohoe: I move amendment No. 101:

In page 70, between lines 22 and 23, to insert the following:

“(9) Where during a compliance period in respect of a qualifying investor’s investment in a qualifying company, that company redeems shares of any member other than that individual or purchases shares from any member other than that individual (either of which is referred to in this subsection as the ‘redemption’) then, notwithstanding subsection (1)(a), the relief that individual is entitled to, other than pursuant to section 503 or 507, shall not be reduced where—

(a) the most recent relevant investment, in respect of which a claim for relief under this Part is made, in a company in the RICT group was more than 18 months prior to the date of the redemption, and

(b) there is no relevant investment, in respect of which a claim for relief under this Part is made, in a company in the RICT group within the period of 12 months after the date of the redemption.”.

Amendment No. 101 concerns the treatment of investors who wish to have their shares bought back by the company. A particular issue arises where a company has raised investments under the employment and investment incentive, EII, scheme over three years, as many research and development companies do. The earlier investors will wish to be bought out, but that will trigger a reduction in relief if the later investors are still within their compliance periods. If a company has successfully used EII-supported funding to grow and, for example, launch a product such that it can now raise cheaper bank financing, then the State should not prevent that company from switching its source of capital. I am proposing, therefore, that buying out earlier shareholders will not trigger a clawback of relief in the following circumstances.

The first condition is that it has been 18 months since the company last raised EII funding. The intention of this timeframe is to ensure the cash raised is not used to fund the buy-back of shares. The second condition is that the company does not raise EII funding for at least 12 months after the buy-back. Again, the intention is to ensure EII funding is not used as cashflow to fund the buy-back. If a company has successfully transitioned to alternative financing, the hope is it is unlikely to need to raise EII funding again. However, I recognise that things do not always run smoothly for new businesses. Therefore, while it is hoped, once companies are in a position to raise alternative funding, they will not need the support of EII, I do not want to close the door on them in raising EII funding again. The proposed 40-month period between EII fund raising rounds strikes an appropriate balance between protecting the Exchequer and supporting start-up companies.

Amendment 107 clarifies that where the withdrawal of relief is from the company, the company cannot offset losses or charges against the tax arising. Equally, the close company surcharge which would ordinarily apply to amounts charged to tax under Case IV of Schedule D does not apply. Both of the proposed clarifications are in recognition that the charge to tax is simply a collection mechanism for a tax relief no longer due, as the company has not actually earned any income.

Amendment 108 is an anti-avoidance measure. Where investors are connected with the company, as they can be for investments under SCI, the proposed new measure for micro start-ups, there was a concern that arrangements could be entered into whereby any clawback of relief from the company would not be paid. Therefore, I am proposing to allow a secondary recovery mechanism against the investors where such arrangements are entered into.

Deputy Michael McGrath: Given that we have the principal Act, the Finance Bill and more than 80 amendments that have been grouped and are largely technical in nature, we need to see the consolidated text of exactly what is being proposed. That will come later in the form of the Bill as amended on Committee Stage, but perhaps the Department might provide us with a readable summary of the changes we are actually making. It is far from ideal to try to read the changes proposed, relate them to the Bill and then the principal Act. We need to know exactly what is being changed. We are likely to be discussing this issue again on Report Stage. If we could see a consolidated version of what exactly we are doing in advance of the next Stage, it would be very helpful.

Deputy Paschal Donohoe: We will do that.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 102:

In page 71, line 17, to delete “section 508A(3)(a)(v)” and substitute “section 508A(3)(a)(vi)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 103:

In page 71, lines 29 and 30, to delete “section 508A(3)(a)(v)” and substitute “section 508A(3)(a)(vi)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 104:

In page 71, line 32, to delete “follow-on” and substitute “second stage”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 105:

In page 71, line 35, to delete “follow-on” and substitute “second stage”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 106:

In page 71, line 39, to delete “section 508B(3)(a)(v)” and substitute “section 508B(3)(a)(vi)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 107:

In page 72, between lines 7 and 8, to insert the following:

“(5)An amount chargeable to tax under this section shall be treated —

(a) as income against which no loss, deficit, expense or allowance may be set off, and

(b) as not forming part of the income of the company for the purposes of calculating a surcharge under section 440.”

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 108:

In page 73, between lines 33 and 34, to insert the following:

“(6)Where an individual claimed relief pursuant to section 503 and —

(a) an assessment is made on the company pursuant to section 508U,

(b) the tax payable under that assessment remains unpaid, and

(c) it is reasonable to consider that there were arrangements in place the main purpose, or one of the main purposes, of which was to avoid paying any tax aris-

ing on such an assessment,

then, notwithstanding subsection (1)(a) and section 508U, that relief may be withdrawn in accordance with subsection (2).”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 109:

In page 74, between lines 7 and 8, to insert the following:

“(2) Where any relief is to be withdrawn under this section that relief shall be withdrawn by the making of an assessment on the investor to income tax under Case IV of Schedule D for the year of assessment for which the relief was given.”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 110:

In page 74, line 8, to delete “(2) In its application” and substitute “(3) In its application”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 111:

In page 74, line 33, to delete “(3) For the purposes of subsection (2)” and substitute “(4) For the purposes of subsection (3)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 112:

In page 78, line 7, to delete “*subsection (2)(h)*” and substitute “*paragraphs (h) and (i) of subsection (2)*”.

Amendment agreed to.

Section 23, as amended, agreed to.

SECTION 24

Chairman: Amendments Nos. 113 to 115, inclusive, and 117 to 123, inclusive, are related and may be discussed together.

Deputy Paschal Donohoe: I move amendment No. 113:

In page 78, line 15, to delete “paragraph (1)(a) in” and substitute “paragraph (1) of”.

Section 24 of the Finance Bill, as published, makes a number of amendments to the film tax credit in section 481 of the Taxes Consolidation Act 1997. It includes legislating for the extension of the relief beyond 2020, providing for a regional uplift, subject to state aid approval, implementing a new application procedure and putting applications for the relief on a self-assessment footing. Should Deputies wish me to expand on any of the aforementioned items, I can, at their request, read the speaking note on section 24. For the moment I will be speaking only to the proposed Committee Stage amendments to the Bill, as published.

As I have stated, the Bill will provide for a new application process in order to obtain relief. It will separate the current application process between the Department of Culture, Heritage and the Gaeltacht and the Revenue Commissioners. The new procedure will result in the Department of Culture, Heritage and the Gaeltacht being provided with taxpayer confidential information for the purposes of the application. Amendment 122 amends section 24 of the Finance Bill to introduce a provision which will designate the aforementioned Department as a “service provider” for the purposes of section 851A of the 1997 Taxes Consolidation Act. The change will ensure personal and commercial information revealed to that Department for tax purposes under the new application process will be protected against unauthorised disclosure. Additionally, the remaining amendments provide for a number of technical amendments to the legislation, as published, to ensure the provisions introduced as part of section 24 will operate as intended.

Deputy Paul Murphy: Deputy Boyd Barrett may wish to comment.

Deputy Richard Boyd Barrett: Does the amendment concern the film industry?

Deputy Paul Murphy: Yes.

Deputy Richard Boyd Barrett: I have just made it back in time. Will the Chairman to clarify the position on the amendment I submitted.

Chairman: We are not dealing with it now. We are dealing with amendment No. 113. The Deputy’s amendment is No. 116 which has been ruled out of order.

Deputy Richard Boyd Barrett: I queried this ruling with the-----

Chairman: The Deputy blamed me for it.

Deputy Richard Boyd Barrett: No, I did not blame the Chairman. When I queried the ruling, I was told that the amendment had been ruled out of order on the basis that it might impose a charge on the Exchequer in so far as it might reduce access to the relief. I said to those responsible in the Bills Office that under no circumstances would it do so, nor was it intended to do so. I pointed out that it would be a clarification of a condition already attached to section 481 tax relief, which requires that the relief produce quality employment. Essentially, my amendment sought to define and clarify the meaning of “quality employment”. I do not understand how the ruling could have been made.

Chairman: Let me suggest a way out. We are starting with amendment No. 113 in the name of the Minister. I cannot take the Deputy’s amendment because it has been ruled out of order. However, when we get to discuss section 24 which will be relatively soon, we can allow the Deputy to address the issue.

Deputy Paul Murphy: The Deputy can raise it when we discuss the section.

Deputy Richard Boyd Barrett: Okay; that is fine.

Chairman: The Deputy can then speak to his amendment.

Deputy Paschal Donohoe: I will address the section when Deputy Boyd Barrett can raise the issue rather than the amendment.

Deputy Richard Boyd Barrett: I am sorry, but I missed the earlier discussion because I

was in the Dáil Chamber.

Chairman: We will deal with the Deputy's amendment in the way we have agreed to. We will now proceed to consider the group of amendments listed.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 114:

In page 79, lines 23 and 24, to delete “, which has not been revoked under subsection (2)(d)”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 115:

In page 83, to delete lines 3 and 4 and substitute the following:

“but neither clause (I) nor (II) shall apply where such other confirmations of financing, as set out in regulations under subsection (2E) and specified by those regulations to be acceptable for this purpose, are available.”.

Amendment agreed to.

Chairman: As indicated, amendment No. 116 has been ruled out of order.

Amendment No. 116 not moved.

Deputy Paschal Donohoe: I move amendment No. 117:

In page 84, to delete lines 34 to 39 and substitute the following:

“(vi) in paragraph (d) by substituting the following for subparagraphs (i) to (iii):

“(i) notifies the Minister in writing of the date of completion of the production of the qualifying film, and

(ii) provides to the Minister such number of copies of the film in such format and manner as may be specified in those regulations.”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 118:

In page 86, between lines 18 and 19, to insert the following:

“(xiii) by inserting the following after paragraph (m):

“(ma) specifying the confirmations of financing that are acceptable for the purpose of subsection (2A)(b)(vii),”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 119:

In page 87, line 15, to delete “where”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 120:

In page 87, between lines 19 and 20, to insert the following:

“(I) by substituting “the amount was claimed under subsection (2G) or paid” for “the amount was paid”,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 121:

In page 87, to delete all words from and including “subsection (2G),” in line 21, down to and including line 22 and substitute “subsection (2G),”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 122:

In page 89, between lines 3 and 4, to insert the following:

“(2) Section 851A of the Principal Act is amended by inserting the following subsection after subsection (8A):

“(8B)In relation to information provided to the Minister for Culture, Heritage and the Gaeltacht by a company for the purposes of obtaining a certificate under section 481, the Department of Culture, Heritage and the Gaeltacht, in processing such information, shall, for the purposes of this section, be deemed to be engaged as a service provider with respect to the administration of section 481.”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 123:

In page 89, line 4, to delete “*Subsection (1)*” and substitute “*Subsections (1) and (2)*”.

Amendment agreed to.

Question proposed: “That section 24, as amended, stand part of the Bill”.

Deputy Richard Boyd Barrett: I have a number of comments to make on the section, but, to be honest, I do not know where to begin. If anything, we need to increase investment in film industry and the arts generally. The film industry has enormous potential. We have a massive pool of creative talent, with a fantastic tradition in acting, film making and writing, as well as excellence on the technical and construction side of film making. These talented people have produced an amazing legacy of film production in Ireland. We could do a hell of a lot more. We are underperforming compared with where we could be. In the same way as Ireland has a literary tradition that internationally punches way above its weight for a small country like ours, we could do exactly the same with film. I favour dramatically increasing the amount of public investment in film production. However, I have a big problem with the manner in which it is being done. Much of that problem relates to section 481 tax relief.

The current tax relief has a condition that film in order to qualify for section 481 tax relief should “act as an effective stimulus to film making in the State through, among other things,

the provision of quality employment and training opportunities”. When representatives of the Irish Film Board and Screen Producers Ireland appeared before the Joint Committee on Culture, Heritage and the Gaeltacht essentially to make the case for the continuation of section 481 relief - there has been a pretty sustained media campaign by certain people in the film industry to try to ensure the continuation of section 481 - they claimed the industry sustained 17,000 jobs, which is a lot of jobs. This relief is worth €70 million to €80 million a year, added to which is €10 million to €15 million in Irish Film Board grants: we are talking about a lot of public money. As I said I do not begrudge that: in fact I would like to double it. However, it is supposed to be conditional on “the provision of quality employment and training opportunities”. If it were true that there were 17,000 quality jobs with training opportunities, one would say it is money well spent, but the problem is that just is not true.

The Minister has a responsibility to look at that very closely. Generally as he knows, all these tax reliefs which are worth billions of euro every year need to be examined very thoroughly to ensure they are achieving the objectives they are supposed to achieve. In the case of this one, it simply is not true that there are 17,000 jobs in the industry. Today if one looked one would probably find a few hundred people are working in the film industry in Ireland - not a few thousand and definitely not 17,000. If one looked a bit further one would find a tiny minority of them, if any, are working in what might be described as quality employment. Hence the amendment I tabled.

I ask the Minister directly to define what is quality employment. Employment in the film industry is absolutely precarious because people who work in that industry are effectively a “hire ‘em and fire ‘em” workforce employed on an if-and-when basis from production to production by special purpose vehicles which are established for making a particular film and then disappear when that film is complete even though standing behind those special purpose vehicles are other companies that have a permanent existence. I do not know how familiar the Minister is with this. For each film production a new special purpose vehicle, SPV, is set up. The company standing behind it gets the money but the SPV employs the workers and then disappears. It appears like a mushroom and then disappears in a puff of smoke leaving the workers with absolutely no rights and entitlements.

Only about eight to 12 companies get the bulk of section 481 tax relief. The workers, who never get formal employment by the parent company but are working for the same people again and again, are not treated as employees, or if they are treated as employees they are only treated as employees for the duration of that production. They have no guarantee when the next production comes along that the company will take them back if the company decides it does not want to take them back. It is totally precarious.

Thursday’s “Prime Time” programme did a veritable hatchet job on workers who were protesting about precarious employment in the industry. In that programme a contractor in the industry said that when he entered the film industry he did not expect any security of employment, permanent employment or continuity of employment. If a contractor wants to have a totally precarious existence because that is their business, that is up to them. I do not understand why anybody would want that, but it is up to them. However, it is total precariousness that every worker in the industry should have to expect that and put up with it. I think he actually used the phrase, “You’re only as good as your last job”, and that is defined by the production company that gets the section 481 relief and has no obligations to employees it may have employed on and off for 15 or 20 years.

Those workers were then vilified by RTÉ in a shameful “Prime Time” programme. I have

great time for RTÉ and public service broadcasting. However, what it did on Thursday bordered on being unethical in its treatment of workers who are protesting about the total precariousness of their employment conditions.

Some workers may have worked for the same parent company again and again. However, if they ask for their rights and say they did not want to work hours in excess of the working time directive, the company may refuse to take them back. If they are transport workers and it is unsafe to work excessive hours when driving to transport equipment but they dare to say anything about that, they will be considered troublesome and the contractor who employs the transport workers for the SPV, which in turn is really working for the parent company that gets the relief, may refuse to take them back because they are insisting on working what are legally safe hours. It is totally unacceptable. I should add that none of these people has pension entitlements. I met people on sets who had been working for 20 years with no pension entitlements at all.

The representatives of Screen Producers Ireland have agreed that they need to do something about training. However, nothing has actually been done about training. There is no training pathway that stipulates that after a particular amount of hours working on film productions a trainee then becomes qualified and is entitled to certain entitlements as a qualified person in that particular grade of film production. That does not exist. Someone can be a trainee for years and never be deemed to be actually qualified because it suits the film production companies and they get people cheaper or whatever the case may be. This is not acceptable and it does not fit any definition, unless the Minister can tell me how these working conditions for people who, I repeat, in many if not most cases have worked for the people who are getting all this relief and who have a permanent existence with their companies but those companies state they have no obligations to these workers even though they have worked for them many times, can be defined as quality of employment and training opportunities.

To back up my argument, much of the defence of the status quo by the film producers and film board in this regard is based on stating that film is different, that people do not understand how it is different and that is just the way it is in film. Recently, I met somebody who works in animation and animation does not work like that. Animation is about making animated films, and I presume just like with normal films there is a certain precariousness in terms of when people will get a project, yet animation companies manage to employ people on a permanent basis with pension entitlements and rights as employees. They seem to have got it right. In fact, the Irish animation industry, based on what I would call more proper quality conditions of employment and training, is a world beater. The Irish animation industry is a big hitter on the international stage. The idea we must accept total precariousness in film production is disproven by what is happening in animation. There is no justification for the continued precariousness that those who are the recipients of section 481 seem to insist has to exist in the industry.

I believe the “Prime Time” programme was directly related to this debate and the fact this section of the Bill deals with the renewal of section 481 relief. It was part of the very sustained campaign to retain this relief. It is very disappointing that “Prime Time” waded in in the way it did in a very biased manner on one side of the debate and essentially tried to smear those who have a different view on how the film industry should be organised. I was interviewed for the piece. The journalist involved put on camera contractors who defended the precarious situation and who stated groups such as the Irish Film Workers Association that are demanding security of employment are just trying to control the industry, just want a closed shop and all this other stuff that was thrown at them. The journalist stated he had offered film workers the opportunity to come on camera to talk about the allegations they are making about blacklisting of union

activists or people demanding their rights but that he could not find anybody to go on camera. The public was completely misled on this and I will cite the evidence because it is important in terms of the Minister's consideration of this issue and the section generally, and my proposed amendment that was ruled out of order.

In one of these committee rooms, at the first hearing of the Joint Committee on Culture, Heritage and the Gaeltacht, the Equity representative from SIPTU, not the Irish Film Workers Association that was maligned very badly in "Prime Time", was asked by me whether there is blacklisting in the industry. I sent the journalist the transcript of that meeting before "Prime Time" aired and stated if he was telling me he could not find evidence of people in the industry saying there is blacklisting that he look at the arts committee hearing where the SIPTU Equity representative stated there was widespread blacklisting. The Equity representative went further at that meeting and stated Equity had done a survey that, if I remember correctly, indicated approximately 70% of people surveyed were in fear of blacklisting and not being re-employed in the industry if they rocked the boat. Furthermore, dozens of members of the GMB union, not mentioned largely in "Prime Time" and, again, not the Irish Film Workers Association, attempted to phone the journalist to state they would speak to him on camera about blacklisting in the industry. That was not acknowledged on "Prime Time". The journalist did not talk to them and refused to take their calls but then stated he could not find anybody to speak about these things. Furthermore, on a protest outside Ardmore Studios the journalist did interviews on camera with people who said they had been blacklisted but he did not present those recordings as part of the documentary. He completely misled the public as to the other side of the debate.

There is a sustained campaign to deny the fact there is a serious precariousness problem in the industry. I want to say to all of those involved, including the Minister and the film producers, this is not good for the Irish film industry. The retention of this relief should be absolutely conditional on a clearly defined definition of quality of employment, which would involve some level of security and continuity for employees. I want to stress those employees recognise the work is project to project. In decent parts of construction, not where there are bogus self-employment issues but where it is done properly, people are employed directly for a job by a particular construction firm. That project may end but unless the person has done something absolutely appalling the firm will take the person back on for the next project. People build up pension entitlements and rights as an employee which accumulate. This is not the situation in the film industry.

I put it to the Minister this has to be the definition of quality employment and giving out this very generous tax relief must be conditional on it. I want it noted in this regard that an all-party Oireachtas committee, at which all parties here were present, made a recommendation that we need to look at the question of continuity of employment, quality of employment and a proper structure in terms of training and career progression. It also made a recommendation that there should be a stakeholders' forum for the film industry for the various grades, including contractors, producers, politicians for that matter and anyone with a genuine stake in it. It should include all grades of workers and no organisation should be excluded from it. The campaign of recent weeks has been to try to exclude specific groups on the basis of hearsay-type allegations. I have no doubt, by the way, this has got very bitter on both sides but there should be a will on the part of everyone to get over the bitterness. The only way this can be done is if all sides state they are willing to sit together in a room to try to work this out to the benefit of everybody. The Minister needs to set down a marker that giving this relief will be contingent on convening that forum recommended by the all-party committee. He should set down a marker that this stuff cannot go on in terms of precarity of employment and that having a genuine stakeholder con-

sultative body where issues and problems can be ironed out in a fair and reasonable way should be the condition of getting this film relief.

Chairman: Could the Minister respond in respect of section 24?

Deputy Paschal Donohoe: I will touch on the five points raised by the Deputy. It is great to hear him acknowledge that in the context one area of creativity, this country is living in a golden period because I think we are with regard to literature. Wonderful things are afoot across many genres from many young and more established writers. I fully agree with the Deputy about that.

I assure him that all the decisions regarding section 481 and the amendments relating to it were made well before that edition of “Prime Time” and were based on other factors. The Deputy asked about employment and the scale of the sector. According to their analysis of section 481 applications received in 2016, the Revenue Commissioners estimate that the number of employees directly engaged in section 481 productions is 2,158 full-time equivalents. A cost-benefit analysis carried out by my Department estimates that a further 902 people are involved in direct employment. On the basis of work by the Revenue Commissioners and my analysis and that of my Department, our judgment is that between 3,000 and 3,100 people are directly employed on section 481 projects. In respect of other figures that have been quoted to us, a study carried out by Olsberg SPI found that the audiovisual sector supported approximately 14,370 jobs. It is important to note, however, that this study included a very broad audiovisual sector as opposed to just film.

Deputy Richard Boyd Barrett: Exactly.

Deputy Paschal Donohoe: The animation industry is one of the two industries that guided me towards the extension of this relief. I look at the work happening in animation, whether it be the companies located in the Chairman’s constituency where the success has been amazing or the great work done by Cartoon Saloon and Brown Bag Films, a global employer of Irish origin. These are two local companies that are now successful globally. In the aftermath of my Department’s review of it, we believe that section 481 can play a role in preserving the interests of industry, ensuring its long-term sustainability and, hopefully, creating a platform from which it can do even better in the future.

The other area that will be increasingly important is creative content that we supply and that is then provided through what are now established channels, namely, Netflix, Amazon and Apple TV. Small screen creative content represents a significant opportunity for Ireland in the future. If we can get creative clusters together, which we are doing, we have a great opportunity to be able to do well within that medium. As I look at what has been the rationale for this relief in the past, I have identified two areas that will be even more important to me in the future.

I listened carefully to what the Deputy said because he has raised this matter with me on a number of occasions. I am aware of some of the debates that are developing. In respect to a forum within Government by which this matter could be considered, an audiovisual steering group has now been established within Government that includes officials from my Department. As a result, my Department will participate in this along with the Revenue Commissioners. In addition, the group will involve the Department of Culture, Heritage and the Gaeltacht, which one would expect, along with the Departments of Business, Enterprise and Innovation and Education and Skills. The effective operation of this tax credit will be one of the early items on the agenda. This group will participate in the screen industry education forum. I do not know if the Deputy is aware of this forum. Perhaps this is a way of pulling together a group

of all stakeholders in the way to which the Deputy referred. The forum will hold its first meeting on 19 November next. My understanding is that the aim of this forum is to focus on how skills can be developed within the sector and opportunities with the sector.

There is a point worth making - and the Deputy did touch on it - about the nature of this industry. The fact that it is production to production means that work patterns are very different to those in other parts of our economy - even construction, to which the Deputy referred. It operates project to project but it does tend to happen within large and existing companies that are able to move their workers from project to project. The nature of some creative industries is determined by the fact that they are project to project. The employers behind those projects differ. This means that work patterns are different. I am laying out that I will keep this relief in place for a further four years. I have outlined the reasons for this. As my officials will participate on the working group. We will look at issues regarding how we can ensure that this industry is more sustainable in the future and ensure the skills development and quality employment referred to by the Deputy that are carved out as qualifying criteria for this relief can be developed. I will rely on feedback from my officials with regard to progress and take that progress into account in terms of future decisions I make with regard to the operation of this relief.

Chairman: The question is that section-----

Deputy Richard Boyd Barrett: I would like to come back in if I can.

Chairman: The Deputy is out of order-----

Deputy Richard Boyd Barrett: Not on the section.

Chairman: -----as always.

Deputy Richard Boyd Barrett: I appreciate that the Minister has listened and is looking at this. I welcome the news about the screen education and training forum. On that point, there have been commitments and promises about having a proper structure for training for quite a long time. There has been report after report that this would be done but nothing was done. To give the Minister some sense of what is at stake, one of the people I met on a recent protest at Ardmore Studios. The protest in question involved workers who believe they are being blackballed out of the industry because they have, essentially, asserted their rights. Many of them are involved with the Irish Film Workers Association and the GMB. The young man in question rang me the following day. I had never met him before. Perhaps he did not want to bring it up because he was embarrassed. He is an apprentice painter trying to make his way in the film industry. During our phone conversation, he revealed that he had done his entire apprenticeship trying to make his way in the film industry while living in emergency accommodation. In fact, he went from one form of homeless accommodation to another. He has children who he could not see because he does not have a stable place to live. I spent last week interacting with Mr. Brendan Kenny in the housing department of Dublin City Council. In fairness, we came to an agreement that would sort things out for this young man who for four years has been living in emergency accommodation while trying to pursue his painting apprenticeship working in the very precarious environment that is the film industry. It is just not on. The Institute of Art, Design and Technology, IADT, is in my area. It is a fantastic institution, with wonderful people and equipment put in in recent years. It also has great training courses, but is this level of precarity the future for those who graduate? People will not know where they stand from film production to film production. I refer to those who have the power to make decisions and whether people are liked. There are many allegations and a level of bitterness on all sides of

the dispute ongoing in the film industry which is both unfortunate and depressing. It is such a pity that that is the case when we have this fantastic potential about which we have spoken. The issue could be resolved if we made the public moneys going into the industry conditional on providing some level of security, for continuity of employment, entitlements and rights in order that there would be an actual career path. How is it supposed to be possible for people to take out a mortgage, pay rent or even find a landlord if there is no security of employment for them next month or in six months' time because of the nature of the business? If the industry was not so heavily publicly subsidised, we could say it was just the private market. However, a lot of State money is going into the industry. Surely the provision of State money should be conditional on something much better. I refer to trainees or, in this case, apprentices not living in homeless accommodation or people not being able to take out a mortgage from a bank because their employment status is completely precarious and dependent on them "not rocking the boat". I use the words of the Equity spokesperson.

I take the Minister's point which is why I have mentioned this issue. I am glad that he acknowledged the point about the animation sector. It proves that it does not have to be like this. How can the animation sector maintain continuous, decent and secure employment for its employees and at the same do a fantastic job such that it will be a player on the international scene? It is able to compete with the absolute best and sought after. As it can offer proper conditions of employment and standing companies, I am happy to give it backing, all of the backing we can possibly give it. It is quality employment. It is something into which people might go and see career progression, but that is not what is going on in the rest of the film industry and that issue has to be addressed. We cannot just have promises that we will look at training and all other issues as we have had in the past. We need the Government to state the issues in the film industry will be addressed now. There are peculiarities to the film industry, but there are ways to deal with them. The animation industry shows that it can be done, even with those peculiarities. Screen training is a good start, but the forum that was promised needs to happen. The Minister for Finance and the Minister for Arts, Culture and the Gaeltacht, Deputy Madigan, need to state nobody is being excluded from it. If we start to operate on the basis that groups will malign each other and with mud being slung all over the place, there will not be a forum or we will not have one that will mean anything because half of the people affected by its decisions will have been left outside the door. That is not going to work. Everybody has to be involved. As the Minister rightly said - it is fantastic that he has said it - the number involved in the industry have turned out to be a fraction of what was stated to the committee by the Irish Film Board. It came here and stated it was 17,000, but the Minister is saying it is 2,800. There should be questions about that. How could it have come here and stated the number was 17,000 full-time equivalents when it has turned out there are only 2,800? I do not know what the breakdown as between PAYE workers and contractors, etc. and would be glad if there was extra scrutiny. I would like to think, however, that the Minister would give some assurance that the forum for stakeholders would happen, there was to be a timeline for it and everybody would be included. It should also be ensured quality employment and training opportunities would be policed and that receipt of the relief would be strictly conditional on people adhering to that requirement.

Deputy Paschal Donohoe: I have three points to make in response. It is entirely possible - I expect it to be the case - that the figures from the former Irish Film Board are right and that the figures I have given are also right. The figures I have given which are available directly to me through my Department focus purely on section 481. My other colleagues might be referring to a broader variety of employment categories, but even within them, it is still a fact that the companies that claimed section 481 relief directly employed 2,158 people in 2016. That is the scale.

On Deputy Boyd Barrett's second point, I want to be clear about what it is I am saying. The Deputy has referred to many issues that fall outside the scope of tax policy such as level of income and how a company looks to recruit. Those are decisions a company has to make. It is the job of the National Employment Rights Agency to look into all of the issues and make sure matters are properly regulated.

Third, the legislation lays out what the objectives are. I have stated in the Finance Bill that I will extend the relief for a further four years. I will use the feedback from my officials who are participating in the group to assess if further changes are needed in meeting the objectives laid out in the legislation. It is open to me as Minister for Finance to decide if I need to make further changes.

The forum is a matter for the Minister for Culture, Heritage and the Gaeltacht, Deputy Magdigan. I am sure she is playing a role in it. Like any forum that is established, these things only work if there is a breadth of inclusion and if it is a forum within which everybody has an opportunity to put forward his or her point and feels like he or she has been heard. That is the general principle, lesson and my view. However, it will be up to the Minister for Culture, Heritage and the Gaeltacht, if she is playing a role in it, to decide how it is to be set up.

Deputy Richard Boyd Barrett: I have one more question.

Chairman: We will have to conclude after this.

Deputy Richard Boyd Barrett: I will be quick.

Chairman: Please be quick.

Deputy Richard Boyd Barrett: Do not worry; we will fly through the remaining sections.

(Interruptions).

Deputy Paschal Donohoe: I notice that nobody else is laughing

Deputy Richard Boyd Barrett: The Minister has said some of the issues I am raising are outside the remit of the Bill or his Department. Even the legislation, as it stands, includes a specific reference that I have mentioned to the Minister. The measure is already conditional on the provision of quality employment and training opportunities. That is something that falls within the remit of the Minister. I did not write the legislation and did not propose the amendment. As that is what is included in the legislation, these are issues that are directly relevant to the Minister, this section and amendments to it.

I asked the Minister one question which he did not answer. I do not think he is avoiding it as we are having an expansive discussion. Given that it is included in the legislation, will he define for me and, more importantly, the people who benefit from the relief what is meant by "quality employment and training opportunities"? I ask because it is a condition of availing of the relief.

Deputy John Deasy: This is not a quiz.

Deputy Richard Boyd Barrett: It is. It is about the relief.

Chairman: We will ask the Minister to respond.

Deputy Paschal Donohoe: I am going to disappoint the Deputy by telling him I do not

know enough about the work patterns or income trends within that part of the economy to be able to tell him what is the appropriate level of income for an actor, screen producer or set designer. I do not have sufficient knowledge of the sector to answer that question but that is where the Department of Culture, Heritage and the Gaeltacht plays a role. It has an understanding and appreciation of that sector and, I hope, an appreciation of the various matters raised by the Deputy. In the context of the Finance Bill, it is worth pointing out we have now changed the certification process for claiming this relief. The production company will now have to engage with the Department of Culture, Heritage and the Gaeltacht before any work begins on a project. In particular, that will and should allow earlier engagement on how training is delivered than has been the case until now. We have split the certification process and are now requiring a production company that seeks to access section 481 relief to engage with the Department of Culture, Heritage and the Gaeltacht.

Question put and agreed to.

Sitting suspended at 5.02 p.m. and resumed at 6 p.m.

Deputy Peter Burke took the Chair.

SECTION 25

Acting Chairman (Deputy Peter Burke): Amendments Nos. 124 to 130, inclusive, are related and will be discussed together.

Deputy Paschal Donohoe: I move amendment No. 124:

In page 90, line 23, after “profits” where it secondly occurs to insert “or gains”.

As this Part of the Finance Bill is more technical than others, I may need to request that the committee go into private session to allow my officials to respond to any particularly technical points that colleagues might want to raise. I propose to speak to the amendments first and then briefly on the section.

Amendments Nos. 124 to 130, inclusive, make a number of technical amendments to clarify aspects of the Controlled Foreign Company, CFC, legislation contained in section 25 of the Finance Bill. These amendments are being introduced following feedback from stakeholders following publication of the Finance Bill. They identified areas of the legislation where greater clarity was required to ensure the measures were correctly understood. They are technical amendments only and they make no policy change to the CFC provisions in section 25. The impact of them will become clearer when I speak to section 25.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 125:

In page 90, line 25, to delete “for corporation tax” and substitute “or gains for corporation tax or capital gains tax”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 126:

In page 90, line 29, after “tax” to insert “and capital gains tax”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 127:

In page 98, line 1, to delete “and”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 128:

In page 98, to delete line 6 and substitute the following:

“Schedule D, and

(c) the capital gains tax that would, in accordance with section 78 or otherwise, be charged on that part of the corresponding chargeable profits in the State for the accounting period which would consist of chargeable gains,”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 129:

In page 98, line 9, after “apply” to insert the following:

“and the activities carried on by the controlled foreign company in its territory of residence were deemed to be carried on in the State”.

Amendment agreed to.

Deputy Paschal Donohoe: I move amendment No. 130:

In page 104, to delete lines 24 and 25 and substitute the following:

“(b) the controlling company in respect of the controlled foreign company was subject to this Part (as respects the controlled foreign company) on 1 January 2019.”.

Amendment agreed to.

Question proposed:”That section 25, as amended, stand part of the Bill.”

Deputy John McGuinness resumed the Chair.

Deputy Paschal Donohoe: This section is important as it is a departure from some of our taxes Acts. CFC rules, which we committed to introducing when we agreed the EU anti-tax avoidance directives, ATAD, are an anti-abuse measure intended to prevent the artificial diversion of profits from controlling companies in the State to offshore subsidiaries located in low-tax or no-tax jurisdictions. CFC rules are more commonly associated with territorial tax regimes and are designed to prevent certain tax avoidance behaviours rather than to raise revenue. As a result, no recurring annual yield from this measure was included in the budget arithmetic.

For the purposes of the CFC charge, a company is considered to have control of a subsidiary where, in broad terms, it has direct or indirect ownership of, or entitlement to, more than 50% of the share capital voting power or distributions of that subsidiary company. The CFC rules operate by attributing to the controlling company the undistributed income of the subsidiary which has arisen from non-genuine arrangements put in place for the essential purpose of obtaining a tax advantage. The question of whether an arrangement is non-genuine is determined by ana-

lysing the extent to which the CFC would hold the assets or bear the risks that it does were it not for the controlling parent company undertaking the significant people functions, SPFs, in regard to those assets and risks. To determine if profits have been diverted to a low tax or no tax jurisdiction, a comparison is required of the tax paid in the foreign jurisdiction by the CFC and the tax it would have paid in Ireland had the profits been earned in the State. Profits may come within the scope of the CFC charge where the corporate tax, including any tax on chargeable gains, paid by the CFC is less than half the tax that would have been paid had the income been taxed in the State. This is the effective tax rate test and it is a highly complex undertaking as it requires a recalculation of the profits of the foreign company under Irish rules, and a calculation of a hypothetical Irish tax liability that would have been payable on those hypothetical profits had the CFC been Irish resident. In recognition of the significant administrative burden imposed by this provision, which originally formed part of the definition of a CFC under the ATAD, has been repositioned as an exemption of last resort. This will allow companies to consider all the other elements giving rise to a controlled foreign company, CFC, charge, and the other potential exemptions that may be available, before undertaking the effective tax rate test. Where it has been determined that a CFC charge is appropriate, the amount of income to be attributed to the Irish parent company is determined by reference to an arm's length assessment of the value of the significant people functions, SPFs, undertaken by the parent company and by reference to the controlling company's shareholding in the CFC. The anti-tax avoidance directives, ATAD, require that these rules are a proportionate response to tax avoidance risks, and therefore allow exemptions to be provided for companies with low accounting profits and low profit margins.

Although not a requirement of the ATAD, I have also provided for a grace period for newly-acquired CFCs, such as a subsidiary company acquired as part of the acquisition of a group of companies, to allow the new parent company a period of up to one year to address the factors giving rise to a potential CFC charge. This is a conditional grace period only. If the subsidiary remains as a CFC giving rise to a CFC charge in the second year, the grace period exemption will be withdrawn and the CFC charge for the first year becomes payable with that of the second year.

In order to prevent double taxation, credit is available against the Irish tax liability on the attributed income for any foreign tax paid on the same income. There is also relief from double taxation on certain disposals of shares or securities in a CFC.

The new Part 35B also includes anti-avoidance rules, including rules to apply a CFC charge where the significant people functions are undertaken by another company on behalf of the controlling company, and provisions to ensure that distributions which are not subject to tax on receipt cannot be used to reduce the quantum of undistributed profits for the purposes of the CFC charge.

The legislation will take effect for accounting periods of controlling companies beginning on or after 1 January 2019.

Deputy Pearse Doherty: I raised this issue on Second Stage. Under the anti-tax avoidance directives, Ireland is obliged to choose model A or B to implement the CFC rules model and it has done so. The Minister is aware that model A is the most effective and that model B, which has been chosen by the Government, is the most relaxed measure that can be taken in dealing with the anti-tax avoidance directive. I acknowledge that either model may be chosen but it is important to note that the vast majority of our European partners and the international community are singing off the same hymn sheet in choosing model A which implements more rigid

anti-tax avoidance measures. We have chosen the model opted for by Luxembourg, Belgium, Slovakia, Estonia and Latvia. Members will be aware that some of those jurisdictions have been identified in multiple reports as operating tax haven models similar to that in operation here.

The purpose of the CFC rules is to lay down strictures and enhance existing tax laws and to identify what type of income will be taxed. There are several problems with model B. It does not deal with non-distributed income, which includes income from interest, dividends, share sales, royalties, banking, insurance and financial leasing. None of those sources of income will be taken into account because of the model chosen by the Minister, but in most other jurisdictions, all those matters will be covered. As the Minister mentioned, model B will only cover income sent to subsidiaries in jurisdictions with a corporation tax rate 50% lower than our headline corporation tax rate. Thus, in the light of our low corporation tax rate, the measures will only apply in jurisdictions with a corporation tax rate of 6.25% or less, which rules out much of the world.

There are serious questions about this measure. It is not surprising that the Government has again decided to go with the least stringent anti-tax avoidance measure and is out of kilter with much of the rest of Europe and the international community in so doing. The Department of Finance has estimated that no additional moneys will be collected as a result of this measure. What analysis was carried out by the Department to inform the decision to choose option B rather than option A? What are the benefits of the weaker CFC rules under model B at a time when we are supposed to be tackling international tax avoidance measures? What does the Minister have to say to the fact that the majority of Europe has gone with the more stringent model A? He mentioned that in dealing with the exit tax issue the Department looked at the applicable rate and at international comparisons. However, it obviously ditched that approach when it came to dealing with anti-tax avoidance measures because if it had looked at international comparisons, it would have chosen model A.

It appears from the consultation process that those who are involved in or assist with this type of tax avoidance were successful and got what they asked for, which was the least effective model. That is not surprising.

This is not something for which the Minister should be patted on the back because we are obliged to implement it under the anti-tax avoidance directive. However, he has decided to go with the weakest model, which is in keeping with how we are dealing with our international responsibilities in terms of international tax avoidance. This is deeply regrettable because, as I have stated on numerous occasions, we need to get our house in order. The State suffered reputational damage as a result of not dealing with issues in a robust and timely manner. This section will copper-fasten the image and reality on the international stage and domestically that Ireland will do as little as possible to tackle tax avoidance.

Deputy Paschal Donohoe: I strongly disagree with the Deputy. As one would expect, option A and option B are different.

Deputy Pearse Doherty: Very different.

Deputy Paschal Donohoe: I stand by the view that option B is appropriate for our tax code and capable of dealing with issues that may arise in terms of the management of CFCs. The key reason for choosing option B is that it is the option most consistent with our tax policy focus on the taxation of activities with substance in Ireland. It also aligns with our long-standing policy

in developing anti-avoidance rules based on principal purpose tests.

I have included in the rules three additional provisions which are not expressly required under the ATAD directive and which I believe are necessary to ensure the objectives of the CFC rules. For the purposes of determining control, I have provided for the aggregation of rights which a person is entitled to require at a future date and also for the aggregation of holdings in a company which are held through associates who are individuals. I have extended the definition of a chargeable company. I have also restricted the definition of distributions to ensure a CFC cannot use distributions to an intermediate company in a no tax or low tax jurisdiction to avoid a CFC charge. I have taken a model which is consistent with our approach of taxing activities that have substance in Ireland. I had added to that a number of additional provisions to deal with issues I judge could arise in the future. Deputy Doherty referred to a number of income streams he believes are exempt from the model I have outlined. I believe he is wrong but at this point, with the Chair's agreement, I might request a technical briefing on it and ask one of my colleagues to run through all of the income streams that are included in order that I can support the point I have made.

Chairman: I presume Deputy Doherty would be agreeable to that.

Deputy Pearse Doherty: We can pursue the matter further on Report Stage if the Minister wishes.

Deputy Paschal Donohoe: I would be happy to do that. The core of the Deputy's point, sorry, a core point-----

Deputy Pearse Doherty: A point relating to non-distributed income not being part of the model used.

Deputy Paschal Donohoe: I corrected myself. I said a core point related to the breadth of income. While I am happy to deal with this further on Report Stage, it would be important to deal with this particular point now so that we do not have any misunderstanding.

Chairman: There is a vote in the House. We will go into private session now.

The select committee went into private session at 6.30 p.m. and resumed in public session at 7.05 p.m.

Chairman: The question is whether section 25, as amended, should stand part of the Bill.

Deputy Richard Boyd Barrett: I indicated I wished to speak before we went into private session.

Chairman: That is fine.

Deputy Richard Boyd Barrett: The mechanism through which the big multinationals are avoiding tax in large amounts is through these inter-group transactions. Will the Minister tell us, if he has the figures, about the latest available figures on inter-group transactions, reliefs and credits?

I have before me a list produced by Revenue with data for up to 2016. It is the Revenue list of tax allowances, credits, exemptions and reliefs. Does the Minister have the latest available figures? The transactions come under a particular heading, which is the largest heading of all the reliefs that are available. In 2016, a total of €9 billion in intra-group transactions was

recorded. Companies are able to deduct these transactions from taxable income. Initially, they would be part of the gross trading profits. Then, their taxable income is dramatically reduced through mechanisms such as intra-group transactions.

The focus of the directive is precisely to get at that. We all know that is where the devil is in this whole question. It is through the intra-group transactions, royalty payments, licence payments and whatever name they use. A company pays off a subsidiary in a low-tax or no-tax jurisdiction and consequently does not pay tax on what are in actuality profits. They are not really costs and should not be allowed to the degree that they are allowed.

I am keen to know the latest available figure. Do we have projected figures for what we are likely to get next year or the year after on these intra-group transactions and allowances? I find it astonishing that, according to the Minister's explanation, a measure that is supposed to address this issue will produce zero. He explained that is because we do not know what the figures might be from year to year. Does he believe this measure will curb and address such conduct? If not, I do not see the point of it. It does not seem that the option chosen by the Minister will curb this kind of tax avoidance activity by multinationals.

Deputy Paschal Donohoe: We are trying to stop behaviour from happening and if it is not happening, there is unlikely to be a revenue gain. This is behaviour we are trying to prevent. If we are wrong in that assumption and revenue comes in against it, it is still highly unlikely the same amount of revenue will come in the following year. Therefore, to use such a revenue gain in my budget forecasting would not be the right thing to do. On the Deputy's second question on the most up-to-date information on the table, the table is available on the website of the Revenue Commissioners who publish the most up-to-date figure available to them shortly after they have it. If the Deputy got that figure from the Revenue website, it is the most up-to-date one. I would not have any figures available to me which I could share publicly that are more up-to-date than that. It is worth bearing in mind that much of what is in the figures the Deputy talks about relates to money flows which focus on companies located here relocating or moving their profits back to their parent companies. That is entirely different from what we are discussing here.

Deputy Richard Boyd Barrett: When one looks at the jump which took place across 2014 to 2015 and 2016, it was huge. Normal repatriation of profits to parent companies might see incremental or even substantial increases but not the level of jump we saw between 2015 and 2016. That is why I am curious about the 2017 figure. The figure for intragroup transaction allowances, or "loopholes" to the layperson, which is to say tax-deductible allowances, goes from €2.9 billion in 2015 to €9.1 billion in 2016. I do not know what it is in 2017, but it is a dramatic increase in the claim being made by multinationals for a relief on their taxable profits. To me, that suggests something untoward.

Deputy Paschal Donohoe: I take the Deputy's point that it is a significant change and I will see before Report Stage if I can get any information as to why it occurred. However, the Deputy may claim that intragroup transfers involve tax avoidance or people acting in the wrong way but I disagree strongly. This is the way very large companies which are internationally organised and have a presence in Ireland frequently repatriate to a parent company the proceeds from economic activity which is associated with Ireland. That is a core part of how these very large companies work. Having said that, I will certainly look at the significant change to which the Deputy refers and see if we can offer an explanation for it prior to Report Stage.

Question put and agreed to.

SECTION 26

Question proposed: "That section 26 stand part of the Bill."

Deputy Paschal Donohoe: Section 26 proposes a technical amendment to section 291A of the Taxes Consolidation Act to clarify the operation of the 80% cap introduced in last year's Finance Act. This cap applies to limit the amount of capital allowances for intangible assets and any related interest expense which may be deducted from trading income arising from those assets in an accounting period. The relief is capped at 80% of the related trading income for claims relating to capital expenditure incurring on intangible assets on or after 11 October. This technical amendment is being made to ensure that the 80% cap applies as intended by explicitly requiring companies to split their relevant trading income for the accounting period between that which relates to expenditure incurred before the introduction of the 80% cap, namely, prior to 11 October 2017, and expenditure incurred after the introduction of the 80% cap. The amendment is being made to clarify the operation of the 80% cap in circumstances in which a company has relevant trading income in an accounting period relating to qualifying expenditure incurred prior to and after the introduction of the cap. This puts the Revenue guidance issued in January 2018 on a legislative footing.

Deputy Richard Boyd Barrett: I do not understand what we are doing here. What I do know, however, is that the way in which the Minister is dealing with this cap is contrary to what was recommended by Mr. Seamus Coffey when he produced his report. He argued, if I remember correctly, that the move back to 80% from 100% should capture income from before it was reduced, not just going forward. By doing that, one would capture the onshoring of assets which took place after the double Irish was closed down. That was the previous mechanism through which aggressive tax avoidance was pursued by Apple and others and which has done significant and, frankly, justified damage to Ireland's international reputation and copperfastened our reputation as a corporate tax haven. Mr. Coffey would not describe himself as a radical lefty or someone who wants to threaten the welfare of the Irish economy and is probably, in fact, a defender of existing corporate tax arrangements. However, even he said we should have applied the 80% rather than the 100% relief the Government allowed for that window period during which the massive onshoring of intangible assets took place. That would have raised approximately €700 million more but the Minister chose not to do it. Perhaps, the Minister might explain if the clarification relates to that decision.

Deputy Paschal Donohoe: This amendment relates simply to the fact that in the aftermath of me making the decision on this last year, the Revenue Commissioners issued an extensive note on the implementation of that change. To copperfasten that policy, I am bringing that technical note into primary legislation. As such, I am now bringing into law the guidance the Revenue Commissioners issued. I am doing so in recognition of the sensitivity of this area and because of the value of some of the assets at stake. That is what this section seeks to do. On the point about Mr. Seamus Coffey, he did not actually include that recommendation in the report on our corporate tax policy. While he made in the report on corporate tax policy some recommendations on section 291A, he outlined subsequently in a blog post his view in relation to timing. His view on timing was not contained in the report he supplied to me. As to why I made the decision on timing in the way I did, a core part of our corporate tax code is that we have certainty around it. As such, any changes are forward looking from the moment at which a policy is changed. My judgment was that if I had made this policy change with a backward effect, it would have challenged that reputation for predictability. The Deputy has to bear in mind that the change I made year last year itself changed another decision that was made on

this matter in 2014.

Deputy Richard Boyd Barrett: The Minister, if he had done what was recommended, might have damaged our reputation with people who are engaged in aggressive tax avoidance but he would have enhanced our reputation with what I suspect is a very significant majority in the world who feel we have developed a reputation for being a tax haven and facilitating tax avoidance. I would have thought it is more important to improve our reputation with those who are legitimately and correctly, in my opinion, expressing concern about how Ireland has been used by these corporations to avoid very large amounts of tax, first, through the double Irish and, subsequently, through the window that was created by the 100% relief on intangible assets. In regard to our previous discussions, it may be the case that when the Minister tries to ascertain why the figure for inter-group transactions jumped from 2015 to 2016, they will be accounted for by the reliefs being claimed, such as the 100% relief available in that period for the massive onshoring of intangible assets that took place in the window that was created for those years. In fact, I am certain that it is what he will find. We created the window that they jumped through and we gave them relief which allowed them to avoid billions in tax. That is reprehensible.

Deputy Pearse Doherty: I have a later amendment that deals with the issue of intangible assets and seeks that a report be commissioned by the Department in this regard. Obviously, we are looking for a report because we cannot put down a different type of amendment due to the rule that we cannot impose a charge on the people or the State. Nonetheless, I have raised this over and over again with the Minister, including last year during all Stages of the Finance Bill. I will make my contribution now as opposed to speaking to the amendment later because they are linked and there is no point repeating ourselves.

The Minister commented on Seamus Coffey's proposal in the report and said Mr. Coffey did not propose any timing. It is accurate that recommendation 18 of the original report did not say this should apply from today but let us look at what he recommended.

Chairman: Which amendment is this?

Deputy Pearse Doherty: I am speaking to the section and responding to the Minister's comments.

Chairman: Yes, but which amendment are you referring to?

Deputy Pearse Doherty: I will speak later on amendment No. 133, which is linked to this section. At recommendation 18 of the report, Mr. Coffey states: "In order to ensure some smoothing of corporation tax revenues over time, it is recommended that the limitation on the quantum of relevant income against which capital allowances for intangible assets and any related interest expense may be deducted in a tax year be reduced to 80%." What he did not say is that we should exempt claims in the future and allow a 100% relief to apply, but that is what the Minister has done.

This is not retrospective. To use the Minister's own words in response to Deputy Michael McGrath earlier, when he questioned whether a previous measure in regard to electric vehicles was being retrospective, the point the Minister made was that it is not retrospective, that we are not going back looking for additional taxation and that it is about how we apply the rules going forward. That is exactly what Mr. Coffey had argued for in his recommendations and in his blog, and what Sinn Féin has argued in all the amendments and proposals we have put forward. This is not about going back to 2014 and saying to those companies, "By the way, you need

to pay additional taxation because we have changed the rules and it is now 80% as opposed to 100%". The issue is that, in future years, as Mr. Coffey said in recommendation 18, the rate should apply at 80%.

We currently have a two-tier system in this State. We now have a situation where intangible assets onshored post-Finance Bill 2017 can be offset at 80% in future years, whereas 100% can be offset for those assets that were onshored between 2014 and 2017. Therefore, there are two different ways to tax intangible assets for future years, that is, for this year, next year and every other year. This is not about retrospection. Mr. Coffey was before this committee in, I believe, his capacity as chairperson of the Irish Fiscal Advisory Council, although I am sure he suggested he was not speaking from that point of view. At that meeting, I asked him what he would say to the argument that this is retrospective taxation, and I will read out what is now on the public record. He stated:

No, I do not believe it is retrospective taxation. It does not change the amount of capital allowances that are available. The total quantum of capital allowances remains the same. All that changes is the amount that can be claimed in future years. That is limited to 80% of the taxable income that is earned. It is not retrospective taxation.

That is the issue. This is not about reputational damage, which is a point I also put to him. It is about not wanting to tax some of the most profitable companies in the world appropriately. It has been acknowledged that the increase to 100% was a wrong policy choice and that is why it is now at 80%. The Minister may not acknowledge it was wrong and maybe he will not use those words, but it is now at 80%. I believe it was very unfair of the Minister to say that Mr. Coffey did not mention a date in his recommendation. He referred clearly to "future years". What the Minister has done is the opposite, and he has said that for future claimants in future years the 80% would not apply. That is regrettable.

Mr. Coffey is a person of huge standing and I do not want to drag him into this, and maybe I should not have made that last point. Mr. Coffey, the person the Minister commissioned to carry out this report, is an expert on corporation tax. The policy he has argued for will bring in €750 million in 2019, so we are not talking about small potatoes. We are talking about a huge amount of money that could be at the disposal of this State to deal with some of the pressures it is facing and that citizens, individuals and families right across the State are facing - I have mentioned all the cost of living pressures and other pressures people are under.

This is ideological. I bring the Minister back to the discussion that took place between the Department of Finance and the then Department of Jobs, Enterprise and Innovation at the time. Although the proposal in 2014 was to increase it from 80% to 90%, a senior tax policy adviser in the then Department of Jobs, Enterprise and Innovation wrote down that he disagreed on reputational grounds. Let us remember that we did not go to 90%, we went further to 100%. However, even on the 90% proposal, the tax policy adviser wrote: "I disagree on reputational grounds, this would reduce the potential minimum effective tax rate from 2.5% to 1.25%, as 1.25% is too low and such a change could backfire". It did not end at 1.25%; the effective tax rate ended at 0%. It was hugely damaging to our reputation. When the Panama Papers came out, this is the measure that was discussed internationally in major newspapers in America and elsewhere because this was one of the mechanisms that was used by Apple to deal with their restructuring of their activities to keep their tax liability as low as possible following the ending of the stateless company rule that was part of our tax code.

This is a policy that should be changed. It is changed for other companies going forward. Yet, if company "A" has intangible assets onshored here, it is able to offset 100% of it against

its profits in any given year. But if company “B” in the same year has intangible assets here, it is only able to offset 80%. It makes no sense that in 2019 we have two tax rates for two different companies and the Minister is saying that this is reputational: it is not. If it was retrospective and we were going back to claw money off them it would be reputational damage and people would say it is wrong and one cannot do it. We are a sovereign nation and every company knows that we can change rates and conditions and that we do it in every single Finance Bill. It is usually of benefit to them. Sometimes, as we dealt with on the issue of electric vehicles, it is a disadvantage to them. What we do not do, however, is go back to them and say the rules today are such and such and we are applying them for the last ten years so we need more money from the company. That is not what is being proposed here.

This is big money that could be pumped into housing or our health system or used to deal with the pressures that individuals are under and there is no justification for this. The Minister’s justification before to the committee, which I was alarmed to hear - I was outside the Chamber and was watching it on my phone - was to suggest that the date was not an issue as to the recommendation. That is a bogus argument. Anybody reading that would know well that what is suggested there is the rate that should be applicable going forward is 80%. What the Minister has done is say it is 80% for some companies and 100% for others. That is not what was proposed in recommendation 18 of the report. I believe the Minister should acknowledge that.

Deputy Paschal Donohoe: One would think from the tone of Deputies that I had left this policy unchanged.

Deputy Pearse Doherty: He has for-----

Deputy Paschal Donohoe: No, I have not.

Deputy Pearse Doherty: There are hundreds of billions of intangible assets and the Minister has left it completely unchanged.

Deputy Paschal Donohoe: What I have done, as the Deputy is aware, is that a change that was made in 2014 I have decided is no longer appropriate. I have moved it back to what I believe it should be at which is 80%. In the midst of all of the claims that have been made on the effect of this, I hoped there would have been an acknowledgement that I have made what I believe to be the right policy decision for our State. It is appropriate that it now stands at 80% and I will deal with the specific points that are being put to me. The tone of what is being raised with me would be more appropriate if I had made no changes at all. I have made a change or I did make the change last year.

Specific points have been put to me, first my recollection of Seamus Coffey’s report and what I have said. Seamus Coffey is chairman of the Irish Fiscal Advisory Council. The former Minister, Deputy Noonan, asked him to do this work and not me. I hold him in the highest respect. I will review what I have said. I will review the text of his report and if there is a difference between the two, as Deputy Doherty may think there is, I will be happy to correct that when I come in next time. I received his report and I read what he said subsequently on the blog. I have to make a decision then on what I consider is appropriate for our tax code. The judgment that I made is that the then Minister for Finance made a change in 2014. On the basis of a decision he made between 2014 up until I then made the change of moving it to 80%, decisions were made regarding the location of assets on the basis of tax policy as it was then. I believed, in the context of a significant policy change for me, that it was appropriate to implement this from the date forward. As Deputies will be aware, in the midst of the €720 million

that we are referring to, what is at stake here is the time at which that money comes in. We are talking about the period over which the cap will be run down, and the additional funding will come in. The €720 million or €700 million that the Deputies are referring to will still come in at a point in the future. We are talking about overall corporate tax take for next year which will be in excess of €9.2 billion. What I look to do is to get the balance right between the competitiveness of our tax code and making a change that I believe was in the interests of our State and that is what I did last year.

Deputy Pearse Doherty: The Minister's suggestion in the way he used Seamus Coffey's report is to reference that he did not mention a date. That is bogus: it is unfair. What the Minister did was very different. He set two rates of tax going forward, 100% and 80%. The Minister has stated that Deputies did not acknowledge a change. We have acknowledged the change. I acknowledged the change earlier. I acknowledged the change last year but what I have also acknowledged is that there is absolutely no change for the hundreds of billions of euro of intangible assets that were onshored during that period of 2014 to 2017. When that change happened in the Finance Bill, a huge amount of intangible assets were onshored here. That is why the value of it is so big. That is why it is €750 million each year until those capital allowances are exhausted.

The other point is where I will direct the Minister again to Seamus Coffey's blog, which the Minister mentioned in response to Deputy Boyd Barrett. He makes the point very accurately, as we all know, that there is no guarantee that these companies and their structures will be here so that that profit is taxable at a time when their capital allowance is exhausted. Yes, they have the capital allowance. If they stay here and keep exactly the same structure, we will get the same tax over time. This raises two points. First, we need the tax now because there is a lot of pressures in this State now. Second, if one looks at some companies, for example, a mobile phone company in question which is no longer operable in Ireland, if it were availing of this 100%, by the time the capital allowance was exhausted it would have left the country. We know that companies like Apple are highly mobile and can move and restructure where certain parts of the companies are based.

On the idea that this is just a matter of timing, maybe that is the case and there will be no change. It would be seriously dangerous to think that everything will remain the same over the next number of years and that we will collect this tax at a later point in time. The case in point is Apple. When we changed the law, Apple changed its structure, and it availed of this change to our finance law.

If the Minister's big argument against this is that we never give him a pat on the back for changing it in 2017, we in fact did give the Minister a pat on the back where the measure brought in €150 million for companies going forward. What we will not give the Minister a pat on the back for is when he proposes no change to hundreds of billions of euro that were onshored at that time. Indeed, we will give out to the Minister for making it very clear in the Finance Bill that those assets will not be taxed this year, next year, the year after, the year after, or the year after, which leaves the taxpayer of this State €750 million short in each and every one of those years. That is where it is wrong. I do not know how the Minister justifies that. It is an ideological thing again where these are not small businesses. Apple is the main beneficiary of this. The beneficiaries are major multinationals with the State cosying up to this. This should be about fair taxation. The idea is that we have two different tax rates for two different companies which both have intangible assets in this State. That we apply two different sets of rules to them for next year and every year thereafter is not fair.

The Minister did a wee little deal in the Finance Bill 2017 that carved out a special place for those companies that availed of a measure that should never have been in place in the first place. The senior adviser in the Department of Jobs, Enterprise and Innovation was saying it would cause reputational damage and could not stand over it and that was at a point when the measure did not even go as far as the former Minister, Deputy Noonan, brought it in 2014. The former Minister did not listen to the advice of the adviser of the then Minister for Jobs, Enterprise and Innovation, Deputy Bruton.

There is no paper trail from any freedom of information, FOI, request to elicit where the figure of 100% came out of because all that was being talked about was 90%. The American Chamber of Commerce Ireland, which was lobbying for this, only argued for 90% and then lo and behold it was 100%. We cannot get the minutes from the meeting between the Department and Apple, the major beneficiary of that deal, when the Finance Bill 2017 was going through and this issue was being discussed. In the interest of transparency that should be provided by the Department. If we cannot get it from an FOI request, it should be released.

Deputy Paschal Donohoe: Who is the Deputy alleging I made a “wee little deal” with? To whom is he referring?

Deputy Pearse Doherty: The Minister made a wee little deal with the companies who have brought intangible assets in excess of €200 billion onto our shores to make sure that they will not be taxed on those assets for the next number of years. If the Minister is concerned about this, I am not suggesting that he sat down with those officials or any person within the Department and made a cosy arrangement, but I am suggesting that the Minister was aware at that time, as we all were, that a large number of intangible assets were being brought onshore at that time. We know that only a certain type of company could have done it and the Minister took a deliberate policy choice to ensure that those companies would not be taxed at the rate that other companies in this State will pay going forward. That is the wee little deal that I talk about.

Deputy Paschal Donohoe: I am glad that the Deputy walked back from that charge-----

Deputy Pearse Doherty: I am not walking back from it. I am saying the Minister made a wee little deal.

Deputy Paschal Donohoe: It is quite a charge to levy against me to say that I made such an arrangement, given that when we debated this with the Deputy last year, I indicated to him at that point that a meeting between Apple and Department officials occurred after the publication of the Finance Bill 2017 and prior to that publication, the only engagement I had on this matter was with my own Department. My Department made it clear to the Deputy and I affirmed it to the Deputy in a debate on the Finance Bill 2018 that I had not been lobbied on this. I made the decision on this based on what I judged to be the right thing to do. I say that in response to the language the Deputy used about me on me or my Department making a deal on this change. I have made this change and it appears to me that every time the Deputy makes a claim it is based on belief and every time I make a decision it is based on ideology. I have to get the balance right between what the right thing to do is and the standards-----

Deputy Pearse Doherty: Mine is ideology as well.

Deputy Paschal Donohoe: -----that our tax code has to meet and the need for our tax code to be competitive.

On decisions that affected many hundreds of billions of euros, there has to be confidence

about the predictability of our tax code in the future. That is why I have done this and why I made the decision on changes to the Finance Bill 2017 on that night and the Deputy knows that the vast majority of finance Bill changes are made to take effect on the night in question. I recollect bringing in the resolution that night to make that change immediately. I have done this to make a change in something that I believe is the right thing to do. I am not looking for pats on the back nor am I weighed down by the Deputy giving out to me about particular matters.

I listen to everybody's opinion, I look at the evidence and I decide what is the right thing to do. I also have commitments on investment and jobs in our country and I have to get that balance right. That is what I believe I have done in the decisions that I have made.

Deputy Richard Boyd Barrett: I accept what the Minister has just said. He probably did make the decision based on his belief that it would essentially scare the horses if the assets that were onshore during that period were captured by reducing the cap to 80% and that companies such as Apple would be very upset by that which might have implications for investment decisions they make here. I would say that is the reason the Minister did this. It is not good or acceptable logic because it is the logic of those companies having their guns to our head to prevent us from doing what is right in terms of fair taxation and tax justice because the original window that was opened in 2014 - which I consider to have been a little deal because the coincidence is remarkable that the double Irish was closed down - that had big implications for those companies and lo and behold a new window opened up which allowed them to onshore all these assets. It beggars belief that there was not a nod and a wink arrangement in that case. It is too convenient and the benefit of that window being reopened for the companies was very significant.

The Minister closed it down but he is allowing that stroke to stand. It was a stroke because hundreds of billions of euros worth of assets were onshored and a tax relief of 100% was given. Those assets will continue to benefit from that 100% tax relief based on what was a stroke and the Minister should not have done that, it is wrong. The Minister did it for what we would have considered to be pragmatic reasons such as the security of the economy but let us be clear about what that means. It means that we let bygones be bygones on the basis of a stroke. It was a stroke and that must be said publicly. The double Irish was a stroke and that had to be closed down due to pressure but lo and behold a new window was opened. To my mind that is wrong.

Deputy Michael McGrath: I want to add to that question. Does the Minister have a figure for the quantum of capital allowances that are still in the system in relation to intellectual property, IP, that was onshored under the 100% regime? We know that in quarter 1 of 2015 some €250 billion of intangible assets was onshored so do we know the quantum of capital allowances still in the system and yet to be used relating to that IP that came in under the old 100% regime?

Deputy Paschal Donohoe: We do have a figure and we will get it for the Deputy.

Chairman: We are dealing with section 26-----

Deputy Pearse Doherty: Can I ask a question of the Minister before we move onto that?

Chairman: The figures will be okay when they come so can we move ahead?

Deputy Pearse Doherty: I have one question on this because we will obviously not agree on this but it will not stop us from trying.

Deputy Paschal Donohoe: Indeed.

Deputy Pearse Doherty: The Minister's predecessor commissioned an expert who made a recommendation. The expert has elaborated on that recommendation in his blog and repeated it on numerous occasions. He said that it would not cause reputational damage and it is not retrospective taxation. We know that it brings in €750 million. Why does the Minister dismiss the views of the person he asked to author the report on corporation tax because it cannot be seen as anything else? The Minister talks about ideology. My opinions are formed by ideology as well. That is not a bad thing, but the different ideology is a point. The Minister has not done so but he could possibly dismiss this by saying that this is all coming from the left. This is the view of somebody he chose to carry out this report.

On the decision to carve out the arrangement for the hundreds of billions of euro of intangible assets that were on-shore during that window of three years, what consultation or advice did the Minister take? We are dealing with the Finance Bill here that is minuscule in comparison with this one measure. At €0.75 billion, this was the biggest measure in the Finance Bill 2017. We have reports, assessments and cost-benefit analyses for other measures put forward. What consultation did the Minister take on the decision? I agree with Deputy Boyd Barrett's view. We all knew that close to €300 billion of intangible assets were on-shore during that window. We knew the facts. We knew it was not a local supermarket or a local hairdresser. We know it was a certain group of companies. I do not see this logic of this. The Minister made the argument in this committee last year that this was retrospective taxation. I hear that he is not making that argument now.

Deputy Paschal Donohoe: With regard to the capital allowances figure, the only figures I have available to me, and the Deputy may have this already, is the April 2018 publication on capital allowances - corporation tax payments. In fact, these only claim for 2015 and 2016. The short answer is that we do not have available the figures the Deputy seeks. I will see if they are available to us and if they are, I will give them to him. I only have the figures for 2015 and 2016.

On the question about consultation, the only consultation I had on the matter was with my officials. To the best of my recollection, the matter was not raised with me in any pre-budget briefings or engagement I had. I think I may have given the detail of that to the Deputy in the debate on the previous Finance Bill but I will check that and send it to the Deputy again.

Question put and agreed to.

NEW SECTIONS

Chairman: Amendment No. 131 is in the names of Deputy Boyd Barrett, Brid Smith and Gino Kenny.

Deputy Richard Boyd Barrett: I move amendment No. 131:

In page 108, between lines 34 and 35, to insert the following:

“Report on corporate tax rate

27. Within 6 months of the passing of this Act, the Minister shall produce a report on establishing a minimum effective corporate tax rate of 12.5 per cent.”.

This amendment is on the effective corporate tax rate. I will not delay proceedings much

longer.

Deputy Paschal Donohoe: Sorry, Deputy.

Deputy Richard Boyd Barrett: Not at all; it has been a long day.

This is an issue that I and others have raised consistently in the past few years so I will not go over the ground too much except to say what I believe to be fairly obvious, which is that a corporate tax rate of 12.5% is by any standards a very low tax rate. It is one of the lowest headline corporate tax rates in the western world. It is lower than havens of capitalism like the United States, Britain and so on. It is a very generous rate of tax on profits already and, as we all know, the actuality is that after reliefs, deductions and allowances, the corporations do not pay that very low level of corporate tax; they pay much less. If we calculate the effective rate based on the proportion of tax actually paid by corporations as against the gross trading profits of those corporations, before all the reliefs, deductions and allowances kick in, the real rate of corporate tax in Ireland has actually reduced in recent years. If it is calculated in that way, in terms of the amount of tax they paid versus the gross trading profits, the effective rate was 5.8% in 2012, 5% in 2013, 5.1% in 2014, 4.3% in 2015 and 4.5% in 2016. The effective rate of tax paid by corporations in this country has gone down 1.3% since 2012. That happens through the myriad of tax loopholes that are detailed on this very interesting document the Revenue produces under headings such as inter-group transactions, losses brought forward, research and development tax credit and others. It is important to emphasise that that is how they get their taxable income down from what are astonishingly high figures. While the effective rate on those gross trading profits has dropped since the Minister's party came into government, the gross trading profits themselves have doubled. In 2012, gross trading profits were €74 billion. In 2016, and these are the latest figures available to me, they were €158 billion. All I can say is "wow". That is a story people do not know. The aggregate profits of corporations in this country have more than doubled in the past five years. When we talk about economic recovery, that is a recovery, but have the incomes of people doubled? Is the quality of life and the quality of services twice as good as they were in 2012? As we know, they most certainly are not. We have creaking public services and housing, health service and infrastructure crises. In terms of people's income, public sector workers are still earning less than they were earning before all the austerity cuts came in. Even now, so many years into the recovery, people are earning less than they were earning in 2008, but the profits of corporations have more than doubled and the effective rate they pay has actually reduced. Again, all I can say is "wow".

Against that background, does the Minister not think it would be reasonable to make them pay the 12.5%, as a minimum? That would be very reasonable and it would produce approximately €8 billion in additional revenue for the State, and they would still be paying a lower rate of tax. I know the Minister's comeback will be to say there are all sorts of reliefs and that the nominal headline rates in other countries are not the real rates either. All of that is true.

Deputy Paschal Donohoe: I hope I will not say it like that; I probably will.

Deputy Richard Boyd Barrett: I hope he will say "wow" in terms of the profits. I do not dispute that the narrative coming from some of the critics of the Irish system is self-interested, that they have all their loopholes and so on, that they are annoyed that we have even more loopholes and that we are better tax pirates than they are in the game of tax piracy. Even if we did make them pay the 12.5%, we would still have, to use the Minister's term, an extremely competitive corporate tax rate. The latter is not a term I particularly like. I do not think there would be a mass exodus of corporations on foot of having to pay 12.5% on astonishing profits, because they would still be making significant profits. It is a very reasonable demand.

We could go into some of the individual loopholes but I will do not do that because it is getting late. All I will say is that there are myriad such loopholes. I do not see how the Minister can justify many of them. I will just pick one. The second of my amendments that was ruled out of order focused on one of these loopholes, namely, the research and development tax credit. I would very much like to make this point because it is becoming increasingly important after the Irish Universities Association pleaded with the Minister about the need for increased investment in universities given what it sees as the significant declining proportion of investment per student and the need to dramatically increase investment. In that context, the €700 million we give out in tax reliefs, which mostly benefit the same gang, namely, Apple, Facebook and others. These companies are the main beneficiaries of the research and development tax credit. Instead of giving them €700 million in the form of such tax relief, imagine what would happen if we gave the same amount to the universities. Would that not make a difference to the universities that are tumbling down the international rankings? If one carried out a cost-benefit analysis in respect of giving €700 million to most of the multinationals or to the university sector, I wonder which would have a more positive long-term significant impact on the economy, its sustainability and viability. To me, it is a no-brainer that we should give the €700 million to the universities. The money would be far better spent on the universities than giving it in research and development tax relief to a load of multinational corporations. That is the sort of thing that a minimum effective rate would allow us to do. It would close down some of what is going on and claw back some of the money which we could then put into universities, infrastructure and key areas where we are chronically deficient in the levels of investment that we need.

Deputy Paschal Donohoe: I admire Deputy Boyd Barrett’s language. The phrase “tax piracy” is nice but it does not do any justice to the reality of changes that we have made in the tax code. In addition, it does not recognise the reality of where the country stands. Ireland has a small, open economy and there are lots of big changes happening around it. In the past 40 years, we have managed to facilitate an extraordinary overhaul of our economic development. We did that on the basis of being open and competitive, a concept Deputy Boyd Barrett appears to find repellent. Part of that competitiveness is what we do and how we have structured the tax code. It is part but not all of it. All of the companies, the names of which Deputy Boyd Barrett tosses around with disdain, employ thousands of people in this country. Has he ever been in any of the factories or plants that gain and benefit from the research and development tax credit? Has he ever seen the number of people who are employed in those facilities? I might get some of the figures wrong but I think Apple employs 6,000 people here, as does Facebook, and Google employs between 7,000 and 8,000. Those companies are all really significant investors here, although I acknowledge it is mainly in the cities. They have made significant investments in the State. I do not know whether Deputy Boyd Barrett acknowledges that.

Deputy Richard Boyd Barrett: I do.

Deputy Paschal Donohoe: Might the Deputy also acknowledge that in the world in which we are trading there are other countries that compete for that investment and those jobs? That is what happens. That is the reality of the world in which we live. Tossing around phrases such as “tax piracy” does little justice to the competitiveness of the environment in which a small open economy like Ireland operates. We must make careful choices about changing elements within the tax code to ensure they meet the standards that now exist. I have a particular responsibility to ensure that we make decisions which allow us to keep jobs in the country. The Government also has a responsibility in this regard. I cannot help but feel some of the time that if I did some of the things sought by Deputy Boyd Barrett and it resulted in job losses he would then criticise

me for that. I hope he would not but I suspect he might.

Deputy Richard Boyd Barrett: We would call for them to be nationalised.

Deputy Paschal Donohoe: By the time the Deputy would call for the nationalisation of the jobs it would be too late.

Deputy Richard Boyd Barrett: No, we would do it before the jobs go.

Deputy Paschal Donohoe: We might laugh about it because we have been here all day and are due to be here for a few more days. We can all have a constructive engagement with each other but that is the Deputy's agenda, is it not? If a big change happens - perhaps in line with some of the things the Deputy wants - then Deputy Boyd Barrett would say he was right all along. What solace would that be to people who lost their jobs? What compensation would that offer to the kind of factories that employ people to make things, many of which avail of our research and development tax credit? That is not a responsibility that weighs too heavily on Deputy Boyd Barrett's shoulders but it weighs on mine because I have to make these decisions. I assure him that, based on the experience I have had doing this job, to be in a place where we have a minimum tax rate would be a recipe for the investment agencies in other countries seeking to take jobs out of this country. That is based on the experience I have had in assisting State agencies to create and retain jobs here and in understanding the environments that exist elsewhere.

Reference was made to a particularly country being a capitalist haven. Such countries do things that we will not do in order to get companies to locate factories in their jurisdictions. We offer a broad, low tax rate. There are many other things we will not do that our competitors do. In my experience of trading within a world which the Deputies do not like - because they do not like a global economy that is organised on the basis of capitalism and that is something they want to get rid of it-----

Deputy Paul Murphy: Yes.

Deputy Paschal Donohoe: Does the Deputy want to get rid of it?

Deputy Paul Murphy: We want a global economy trading on the basis of socialism, co-operation and mutual assistance.

Deputy Paschal Donohoe: The Deputy is working with his brothers and sisters across all other democracies to get to a point at which that might happen. However, I do not want to go there because I have not seen it work in any country. If he is successful in embarking on that journey, it does not take away from the world in which we live now. A message from the Government to the effect that it wants a minimum effective tax rate belies the fact that we have lots of different companies, many of which are involved in different kinds of economic activity which, in turn, allow them to access reliefs. None of that is compatible with a minimum effective tax rate. In my experience of this kind of work in recent years, it is my strong recommendation to the Deputy that going down the route outlined would be dangerous for jobs. If those jobs and investment were to be threatened, the Deputy's hopes of nationalisation would be of little solace to people who lose their jobs.

Deputy Paul Murphy: I will speak to the substance of amendment No. 134 now and formally move it later as this debate also relates to that amendment. While I agree with the sentiment behind Deputy Boyd Barrett's amendment, amendment No. 134 also calls for a report on

increasing corporation tax to 25% for big corporations. That would bring our rate to approximately the world average. It would also introduce a differential rate under which small corporations would continue to benefit from the 12.5% rate, while large corporations would pay 25%.

There are many problems with what the Minister said. There is a sound economic reason and a moral reason to reject the Minister's logic. In regard to the economic reason, I agree with him that we are in a world that is changing fast and where there is much uncertainty in the global economic picture, with Trump, Brexit and developments within the European Union. Things are uncertain. To the extent that Ireland and the leaders and political representatives of Irish capitalism have sought to create a certain niche for themselves and a certain level of competitiveness, an important part of which the Minister agrees is tax competitiveness, that position may well be undermined by global factors. If Trump were to win a second term and continue on the trajectory he is on in terms of corporation tax rates and treatment of corporation profits, that would probably create a significant incentive for large multinationals to bring profits and operations home. If Theresa May carries through the bargain basement Brexit she would like to carry through, which we will see whether she is able to do, Britain will be more aggressively engaged in competition with Ireland for the kind of niche in which Ireland has been positioned. Some eastern European countries are also looking to reduce corporation tax rates. Ireland no longer has the lowest rate, at 12.5%, and more will go in that direction.

The Minister's response to this changing world is to acknowledge it and say we must stick to the 12.5% rate that we have, even though it is really 4.5%, 5% or whatever, because it is what brought multinationals here and we hope they will stay here. It is not a sustainable project, however, for the very reason that a race to the bottom can be won by other, bigger powers. If we compete on the basis of our low corporation tax rate or the low effective rate of corporation tax paid by big multinationals, another country will come along and beat us at that game. The road to sustainability, therefore, is not to stick with that model. While it may have been effective in particular circumstances, such as those that gave rise to the Celtic tiger, in providing a significant impetus for foreign direct investment and attracting American corporations seeking to act as aircraft carriers into Europe, as it were, that is extremely unlikely to happen again because the model is not sustainable. It is just hanging on with one's fingernails and hoping the world situation does not go extremely bad and undermine the whole basis for the model. While it may justifiably seem to be a radical alternative that People Before Profit and Solidarity are putting forward, it is ultimately a more sustainable alternative to say we need a different economic model based on significant public investment in education, research and development and so on but also in public ownership of key sections of the economy. On that basis, the economy can be sustainably developed environmentally and economically.

The Minister can perhaps say that he is for that socialist vision of a democratically planned economy, but we are where we are. If one wants to get to where one wants to be, one must take actions that point in that direction. Those actions break away from the current developmental model of Irish capitalism, which goes absolutely nowhere, and instead point in a different direction. An important part of that change is taxing corporations properly. Corporations overstate the extent to which raising corporation tax by X percent would encourage them to leave. They overstate that for their own purposes and it is in their interests for them to create that impression. It is possible that increasing corporation tax can lead to corporations leaving, but that is why we should use the resources we have and which we should use, for example, the Apple tax, to create a different model for the economy that will be far more sustainable in order that we are not reliant on attracting multinationals to come here.

The morality of the issue is not some abstract concept but concerns solidarity with our fellow human beings around the world who lose as a result of Ireland's tax policy. In the rates that appear on paper as opposed to the rates that are paid, corporation tax globally has fallen from 49% in 1984 to 24% in 2018, and the downward trend is continuing. Due to the global free movement of capital, this notion of tax competition has obviously caught on and has become a way for countries to try to obtain a share of foreign direct investment. It is not a coincidence that inequality has grown substantially in the same period. I think it was Oxfam that recently found that 82% of the wealth produced in the world last year went to the top 1%. That outcome is a product of policies such as tax competition.

Ordinary people in this country lose to a massive degree. If we had the Apple money, one wonders what we could do with health, education and so on. We are not the only ones who lose, however. People in the developing world lose more than anyone else. According to relatively conservative estimates, some €100 billion a year, which could go health, education and so on is lost, robbed from those countries. It does not end up in the pockets of ordinary people in this country but rather in the profits of corporations, which is why the whole notion of tax competition is bogus. Taxation is not the same as competing on the basis of education level or public infrastructure.

In tax competition, the only people who win in the medium to long run are the corporations. While one can beggar one's neighbour by undercutting him or her at 12.5%, 4.5% or whatever, if the trend in global taxation rates continues, in 30 years' time corporations will not be paying any tax and the average rate of corporation tax will be 0%. It is important, therefore, for Governments to take a stand to reject the race to the bottom and instead seek global co-operation. We could start at a European level where there is a possibility of a common consolidated corporation tax base, and discuss setting the bar progressively higher in order that those who are making and holding onto vast amounts of wealth pay tax and contribute to society.

Deputy Paschal Donohoe: Would the Deputy nationalise Google?

Deputy Paul Murphy: If Google threatened to leave, and if there were assets which were worthwhile and could be used in co-operation with others, a Government would have to consider it. If we were faced with Google leaving, along with all the jobs, what would the Minister do about it?

Deputy Paschal Donohoe: I am asking the Deputy.

Deputy Paul Murphy: I said it was an option that would have to be considered.

Deputy Paul Murphy: I will give an example. The Mitterand Government nationalised a part of an international computing company. It did it-----

Deputy Paschal Donohoe: It was François Mitterrand's Government. It financed that in the 1980s.

Deputy Paul Murphy: It was part of a global network. That Government did it, was able to keep it going and to do deals with other parts of what was previously the international network of these companies to continue to produce and so on. Workers produce, come up with ideas and create the value that these companies benefit from then pay no tax on. When one has those skills and if one hangs on to the infrastructure that exists, it is possible to have an impact.

Deputy Paschal Donohoe: If a large company such as Google said it was going to pull out

of Ireland, the Deputy would consider nationalising it.

Deputy Paul Murphy: If the alternative is all the jobs going, yes.

Deputy Paschal Donohoe: What if it was Glanbia?

Deputy Richard Boyd Barrett: The same.

Deputy Paschal Donohoe: It is helpful to crystallise what the endpoint is for the Deputy's vision because he himself talked about the democratically owned means of production. The endpoint of that is the vista of a government, probably led by Deputies Paul Murphy and Boyd Barrett, overturning the 40 or 50 years of an economic model based on openness and competitiveness, which has created tens of thousands of jobs in our country, and going down a route that has more in common with Latin America than Europe. If the best answer the Deputies can give me about how this worked is something France did nearly 40 years ago, then that tells a story about the likely effect of this. I am aware of President Mitterand's reign. The Deputies are probably talking about his first term and what he did in 1981, 1982 and 1983. He ditched that approach in the rest of his term of office.

Deputy Richard Boyd Barrett: He did.

Deputy Paschal Donohoe: I thank the Deputy. The best example the Deputies can give me is something that happened in France 40 years ago-----

Deputy Paul Murphy: In 1982.

Deputy Paschal Donohoe: I would say in 1981.

Deputy Paul Murphy: In 1982.

Deputy Paschal Donohoe: It was in the early part of his time in office and was an approach he ditched in the following 12 years for which he was in office. That says a lot about how that approach would work in France, let alone Ireland, with our size and scale. I will address the arguments relating to economics and morality. It is important to bring morality into discussions such as this. We should be willing to have arguments based on acknowledging that we have different beliefs, ideologies and approaches. I will cover that argument.

The Deputies made an economic argument, in which they think there are changes which are right because of the global environment and the need for Ireland to carve out a different economic model. My judgment is that the economic environment Ireland will be in for the next few years is likely to see key large trading partners that we trade and compete with see their top line tax rates come down. The French finance minister is talking about reducing the corporate tax rate. America has already done so. Prime Minister May and Chancellor Hammond have said they will do it. In an environment in which top line and effective tax rates are likely to come down, the Deputies' recipe for the prelude to having to nationalise some of these companies is to put the top line and effective tax rates up.

Deputy Paul Murphy: That is because the Minister is being beaten at his own game.

Deputy Paschal Donohoe: How are we being beaten at our own game, given that we have an economy which, over the last number of years, has seen its share of foreign direct investment as a percentage of its share of global income do really well?

Deputy Paul Murphy: The Minister has outlined how that can happen.

Deputy Paschal Donohoe: This is an important point to make because, over the last while, we saw the openness of our economy be a positive factor in helping us to pull through the global financial crisis. It is worth clarifying that the endpoint of what the Deputies are talking about is considering nationalising companies. That is not a recipe to retain jobs, let alone create new ones. With regard to the argument on morality, I acknowledge that with much of what we have to do and which I have worked to do while dealing with the pressures I face in the here and now, there will have to be changes to global tax collection. Large companies are repatriating their earnings to their home country and the leading example is America. I welcome that happening because those tens of billions of euro being in the global ether was delegitimising the global tax code and risking international tax co-operation. We had either already taxed that money or had no taxing rights against it. I welcome that it is going back to America and have said that with the engagement I have had with the Department of the Treasury in America. It is an important and positive change overall.

The Deputies may differ and we got a taste of this earlier in the discussion on the anti-tax avoidance directive and on the intangible taxing regime. They may differ with regard to specific decisions and the direction in which I am taking it. I am trying to bring our corporate tax policy in line with new best practice that has developed while also acknowledging that it is a feature of the competitiveness of our economy, and at the same time seeing big economies which are located really near us beginning to take their tax rates down. It is a balancing act that would unravel spectacularly if the amendments the Deputies have here relating to the policy, not the report, were to happen.

Deputy Richard Boyd Barrett: We have gone on longer than intended. We were trying to be brief. It is an important discussion because of the consequences of how we deal with that. The Minister is correct to say that the Trumps and Theresa Mays of this world, among others, are further accelerating the race to the bottom for corporation taxes. The Minister is saying that is the way corporation taxes are going and that we have to accept that is the way it is going without doing anything that would endanger our position. It is worth saying that possibly even Trump himself has indicated at times that his tax policy was a reaction to what places like Ireland had done. We helped to spearhead it. There has been much commentary on it internationally. It is not that we cannot do anything now because of what they might do. What they are doing is, to a significant extent, a reaction to what we did.

Deputy Paschal Donohoe: No.

Deputy Richard Boyd Barrett: That is what is being said internationally and I think it is true. I know the Minister does not like to admit it because it would be a big admission. That is what is being said, including in the *Financial Times*. It is not just being said by Trump, although he has referred to the Irish tax rate and Irish tax piracy, although I do not know if he used that exact phrase. I am not saying it for rhetorical or hyperbolic reasons. I think we have been spearheading an international race to the bottom on corporate tax. Nobody could dispute with a straight face that the biggest corporations in the world are aggressive tax avoiders which have gone to extraordinary lengths to avoid paying tax on staggering amounts of profits. That is beyond dispute. Is it a coincidence that they are all located here and that the whole world is saying that Ireland is a tax haven? Even Trump, as obnoxious as he is, is sort of saying he must reduce corporate taxes in the United States. He wanted to do that anyway - do not get me wrong. He would find any excuse but the fact that he has cited Ireland must tell us something. Insofar as Ireland has influenced the global race to the bottom in the wrong direction, we propose that

Ireland start to influence global corporate tax policy in the right direction - in a good direction.

Chairman: Is Deputy Boyd Barrett pressing his amendment?

Deputy Richard Boyd Barrett: I am pressing it. That is what we are proposing.

As a final point, the Minister is not acknowledging that there is a cost to all this that is not only about a kind of ideological choice, that where we would like to go might end in nationalisation and that is what we really want whereas where the Minister wants to go is somewhere slightly different.

Deputy Paschal Donohoe: A lot different.

Deputy Richard Boyd Barrett: A lot different, I accept, but that is not what it is about at all. I would rather not be in politics. I would rather get on with something other than politics but the reason I am involved in politics is a real concern about problems that we simply cannot ignore and that are getting worse, such as the environment. The world is proving incapable of dealing with the environment because the politicians will not take on these corporations. That is what is happening. Why is there an infrastructural crisis in the western world? It is not only in Ireland. We are one of the worst but there is a housing crisis all across Europe. There is a housing crisis in the United States. A housing crisis that did not exist 20 years ago exists now all across the western world. Why is there a crisis in health services all across the western world? Why is it we could do better 20 years ago, in health, in housing, in education and in infrastructure, than we are able to do now when we are richer than we were then? Is that not a conundrum? We are worse in all the key areas of infrastructure than we were 20 years ago but we are richer today than we were then. That is a contradiction. The Minister's perspective is not acknowledging that is a problem and that we somehow need to move in a different direction to address it otherwise we will be in big trouble.

I will finish on this. I cited the example of the universities versus the research and development. The Minister did not respond directly on it. He can make all the cases he likes for Apple and the level of investment but I beg him not to try to convince me that it is better to give €700 million to Apple, Google and Facebook than to Irish universities because I do not buy that. From an economic point of view, from a social point of view, from a sustainability point of view and from the point of view of moving in one direction rather than another, it is self-evidently the case it would be better to give it to our universities than to give it to Google and Facebook.

Amendment put and declared lost.

Deputy Pearse Doherty: I move amendment No. 132:

In page 108, between lines 34 and 35, to insert the following:

“Report on restricting banks from carrying forward losses

27. The Minister shall, within 6 months of the passing of this Act, prepare and lay before Dáil Éireann a report on restricting banks from carrying forward losses against taxable profits in a manner which could result in many institutions paying no corporation tax for the foreseeable future by introducing a 25 per cent cap on profit that can be written off by carried forward losses in any given year and an absolute ten year limit on the use of losses for this purpose.”.

The issue at hand here is the issue of the carry forward of losses in the Irish banks and my

party has put forward an amendment. It deals with the issue of a report with specific recommendations, which we submitted to the Minister in our alternative budget. I am sure the Minister has seen our policy position paper on this because I sent him a copy.

The Department has already published a paper on the factual position on the carry forward of losses in the financial institutions. I will not go into examples from 1982 but I will talk about the current situation and how Ireland is an outlier in how it deals with the deductibility of tax losses.

Ireland's position is that the carry forward of losses is unlimited, that is, it is indefinite. It can continue for 50 or 60 years, if such losses are acquired. There is no limit on the deductibility of tax losses. We allow for 100% of tax losses to be carried forward or deducted from profit or tax payable in any given year. That is not the case in Austria, Canada, Costa Rica, the Czech Republic, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Japan, Mexico, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Switzerland, Turkey, Britain or the United States of America. Indeed, when we look at the international comparisons, we are very much out of line with the vast majority of OECD countries.

What we are dealing with here is bank losses. I have heard the Minister make a number of arguments as to why the proposal my party is putting forward should not apply. One argument the Minister talks about is the loss of value where we have large shareholdings in the banks and receive dividends from them. That does not apply across all the banks, even those in which we have shareholdings. Some of the shareholdings are smaller than others.

The Department's paper, which was helpful in informing the debate, showed that there would be a loss of value in the Irish banks if one restricted the carry forward of losses in them. We would never dispute that there would be such a loss of value. The Department's paper estimated that such reduction in value would be €420 million. Let me say, first, I disagree with the policy of selling AIB anyway and that loss dwarfs into insignificance if one holds the position that one will not sell it anyway. Even if one were, if one wants to measure it in terms of the value of the banks, a potential drop in value of the banks of €420 million if one were to restrict the carry forward of losses is a minor issue in comparison to the tax that would be payable. Within just over two years, the amount of tax that could be brought in, calculated at €175 million per annum, would exceed the value that would be lost in terms of the shareholding of the State in the three institutions.

This comes down to an issue of fairness. There was a policy position, which was introduced at the time of the National Asset Management Agency Act 2009, to restrict losses in financial institutions that were bailed out by the State to 50%. The former Minister, the late Deputy Brian Lenihan, introduced that with a foresight - obviously, there were calls for it at the time - that despite the banks incurring a massive amount of losses at the time, there would be a point when these banks would become profitable again and at the earliest opportunity they should start to pay their fair share of tax and make an appropriate contribution through the tax regime in terms of paying their way. The banks have returned to profitability. The three banks, AIB, Bank of Ireland and Permanent TSB, between them recorded profits last year of €2.6 billion. The problem is that they were able to use deferred tax assets to offset their tax liability in the State. In one case, a bank making profits of €1.5 billion is not paying corporation tax in the State because of these deferred tax assets.

One can look at the matter from two ends. One can look at limiting the amount of time that the banks can carry forward the tax assets for. For example, throughout the OECD, there is a limit. The limit in Finland is ten years; in Greece, it is five years; in Iceland, it is ten years; in

Turkey, it is five years; in Switzerland, it is seven years; and in Portugal, it is 12 years. There are different rates. Ireland provides that the banks can use these deferred taxes until the losses are exhausted which means AIB, for example, has to make in excess of €20 billion of profit before it starts paying corporation tax in the State. The value of the deferred tax assets is in excess of €4 billion, which is a huge amount of money. We have been told AIB will not pay corporation tax for 20 years. Bank of Ireland will not pay corporation tax until €9.6 billion of profit has been made or €1.2 billion of deferred tax assets is used up.

The Minister will say we have a banking levy and that is how we get a contribution from the financial institutions. Let me compare what happens here with what happens in Britain. It was not radical lefties out to punish big banks, institutions and so on but rather under the Tory Government a bank levy was brought in. It brought in £3 billion in 2017. Like Ireland, the UK has a bank levy and like Ireland, its banks pay corporation tax. Obviously, its corporation tax is higher than our rate of 12.5%. In Britain, in the summer of 2015, a surcharge on corporation tax for banks was introduced. Not only do the banks have to pay the appropriate corporate tax that is applicable to other companies in Britain, they have to pay 8% above that, on top of the fact that, collectively, they must pay £3 billion bank levy. Recently, as a result of a change in 2016, which applied in 2017, I understand its changed the rules to allow a full 100% carry forward of losses. Like Irish banks, British banks incurred significant losses yet the rules were changed so that they could only carry forward 25%. I made those points to ground this discussion in international facts. My earlier point related to how we treat companies. I do not suggest that we change the rules for companies. However, it is not accepted international practice that companies can carry forward 100% of losses and do so indefinitely. Ireland and another nine states are outliers in terms of the OECD in that regard. The vast majority have restrictions on either time or the percentage that can be carried forward in losses and numerous jurisdictions apply both criteria.

This is an issue of tax fairness. These banks have caused much damage to ordinary people. People just get a kick in their guts when they hear the massive profits now being made by financial institutions yet they do not pay tax. I raise these issues all the time and I raise them directly with the banks. I talk to people who come in from work at 6 o'clock and who work on construction sites in weather like we have today so they might be wet, tired and have blisters on their hands. These people pay their taxes. They have seen not only how the banks have behaved in recent years but how they behaved during the crisis period and during the time that led up to the crisis. These people cannot understand, when one explains it to them, that these three Irish banks in which we have significant shareholdings made a €2.6 billion profit but because of a rule we introduced do not pay any tax and, indeed, some of them will not pay tax for the next 20 years.

I argue strongly that we adopt a similar approach to that in Britain. We should keep the levy. I am not arguing that we do what Britain has done with corporation tax. In Britain, an 8% surcharge on the profits made by banks has been introduced, so they must pay additional corporation tax. I suggest that we restrict the carry forward of losses to 25%. If the Minister did that, it would bring in an additional €170 million this year. Would the banks be able to continue with their losses? Of course, they would but they would just carry them on longer. There should be a time limit on this because it is not fair. My eldest child is 12 years of age, so he was born during the time of the crisis. When he is over 30 years of age, AIB will still not be paying corporation tax despite the fact that if it continues on the same trajectory, it will make over €1 billion in profit.

I have heard Ministers make the point - I am not sure whether the Minister made it - that this could lead to an increase in interest rates. That is just scaremongering. These banks are making serious profits. When one strips everything away, this needs to boil down to fairness and to what is right and what is wrong. Why do we ask teachers, nurses, gardaí, members of the Defence Forces and hairdressers to pay tax and yet have a system that allows companies that make billions of euro in profits not to pay tax for the next two decades? That is what my amendment is about. If we ask one section of society to pay tax, we should also ask the other sections to pay tax.

Whatever about the justification for why this measure on the capitalisation of banks was changed, that no longer exists. There is no reason whatsoever not to do this bar, as I have mentioned before, ideological reasons. It is just like how we deal with the onshoring of intellectual assets. It is like the different conversations we have had. The Minister's party and Government protects these special interests. It is a Government for the few and not the many. When one reads the Finance Bill, one can see who is being looked after. One can talk about small tax cuts, which we talked about earlier, but the big money is in issues like this one. It does not get the same attention and will not get the same headlines, because maybe it is a wee bit complicated, but it is very simple when one strips it all back.

Deputy Michael McGrath: Without doubt, people like the idea of banks paying taxes. Obviously, the Minister must consider the implications of reinstating the restriction that was removed by his predecessor. I understand why it was removed in terms of the capital position of the banks and the changes that were being introduced under capital requirements directive, CRD IV. I read the paper made available to this committee at the end of August. It set out the overall conclusion and laid out the factors that would need to be considered if a change was being suggested.

I want to ask the Minister about the capital position of the banks. The paper addressed that aspect and estimated what impact it would have on the banks in which the State holds shares. I ask him to advise the committee in light of the recent stress test results at a European level whether the estimate needs to be updated in terms of what the likely impact would be. Again, the estimate was based on certain assumptions in terms of what the impact would be on the market value and the State's shareholdings that would come in in excess of €400 million. Put against that, the Minister is saying the additional yield of reinstating the NAMA restriction would be €117 million per annum. I do not think anyone is suggesting that making the change would be without consequence or cost free, because clearly it would not be. There may be consequences from the points of view of capital, share capital and dividends. I do not know what the Minister's intentions are at this stage in terms of the possible sale of further shares in AIB. I am conscious we are in an open forum and are talking about listed banks that have obligations to the Irish Stock Exchange and so on and that the Minister is the shareholder. Can the Minister give us his perspective? Is his position as summarised in this report, which I understand was not published? I believe the Minister called this a technical paper, which was provided to the committee.

Deputy Paschal Donohoe: It was published.

Deputy Michael McGrath: Does the paper reflect the position of the Department and Minister? Have there been any updates since August on the key consequences or the estimates of the consequences that would feed into the final decision?

Deputy Paschal Donohoe: On the amendment, I have already done and published the

paper I was asked to do in last year's Finance Act, which is primarily what this amendment calls for again. The paper laid out the consequences of different options that could be open to a Minister.

I will deal first with the points made by Deputy Doherty. When I hear the Deputy talking about gardaí, nurses, teachers and those who work in construction it strikes me that more gardaí, nurses and teachers have been hired and more work is being done on our construction sites as a result of economic choices made by me and my predecessor. An economic recovery, which the Deputy did not think would happen, is under way. I remember many of the contributions he made during and after the crisis. We now have an economic recovery which has benefitted people, allowed us to hire more public servants and enabled more work to be done on construction sites all over the country. While there is much we need to do and many social challenges we need to rise to, some of which we touched on in this long debate, it is still the case that policy choices made by me and the current and previous Governments have led to positive changes in the economy that the Deputy claimed would never happen.

An element of that feeds into choices that we now have to make regarding the banking system. Deputy Doherty touched on a number of cases and made many comparisons. He compared the Irish and British banking systems, for example. The UK banking system is very different from the Irish banking system. We have a small number of banks operating in a highly concentrated banking sector. We need more competition in the sector but we have some significant legacy issues that we still have to deal with. These relate to non-performing loans and investment the banks still need to make. Other issues, which are not legacy issues, include mortgage interest rates, the costs of doing business with the banks and the amount of credit the banks are providing for investment. None of these are at the levels they should be at and they are definitely not where they need to be when compared with those of other countries in the European Union. This has to change and I want to see that change.

The paper, which I shared with Deputy Doherty, was prepared by officials in my Department at a technical level and I saw it before it was published. The Deputy did not acknowledge some of the other aspects of the paper, including the change to the way we will manage losses in the future. Most notably, the paper states:

What can be said, however, is what the DTAs, primarily comprised of losses, represent as a percentage of each bank's transitional CET1 as at 31 December 2017, before any purported write down, and this is set out in Table 3 below. In summary, for AIB it represents 3.7 percentage points of its ratio of 20.8%, for BOI it represents 1.8 percentage points of 14.0%, and for PTSB it represents 2.3 percentage points of 17.1%.

The way in which we currently account for those losses within the balance sheet in turn has a significant effect on the amount of CET1 capital the banks hold. The paper addresses the capital ratio of the banks using careful language. It states:

It cannot be said what the reaction from the regulator would be if some or most of this value was removed from each bank's capital ratio. This is a matter for the European Central Bank, the Single Supervisory Mechanism (SSM), and it would vary by bank. However, at a minimum, it could be expected to impact the quantum of dividends the State could receive from these banks in the near term and could colour the regulator's views on their non-performing loan (NPL) reduction strategies given concerns that disposals may negatively impact on capital in the coming years.

I hope this point on the capital holding of the banks addresses the point made by Deputy Mc-

Grath.

The paper also makes points on the effect of the proposed change on the valuation of the State's investment. While this is not a matter for this debate, I do not believe the State should be an owner of the Irish banking system in the long term and I want the position in that regard to change. I want the banks to stand on their own feet. If, God forbid, the State ever faces the kind of global economic shock we experienced a decade ago, I do not want to be in a position where it still owns the majority shareholding in two of our banks and a minority shareholding in one smaller bank. It is in the long-term interest of the State that the banks are owned privately and that one bank, in particular, makes the transition to private ownership and the State no longer has a majority shareholding in it. If we were to make changes to how we account for losses, all of these matters would be affected and the paper outlines the reasons for that.

The paper also examines two different options that would be available to us. The first would be to confine the proposed change to retail banks. If we were to do that, which retail banks would we choose and how would that work? Would the change extend to KBC Bank and Ulster Bank in addition to the three banks in which the State has shares? While it is for the banks in question to speak about the effects the proposal could have on them, I will say that it is in our long-term interest to have competition in the banking sector.

With regard to the effect the proposed change would have on consumers, it would change the nature of the banking system and the banks' balance sheets. The paper lays out that it could have an effect on other issues that matter to consumers, for example, charges and the competitiveness of the services the banks offer their customers. For all of these reasons, the proposed change would not be in the interests of delivering the other outcomes we want from our banks.

The Deputy referred to what the UK did but did not refer to the relaxation of other restrictions in the UK loss release scheme. The UK made other changes in its tax code in addition to the change proposed by the Deputy, including allowing most carried forward losses incurred from April 2017 to be used more flexibly against total tax profits, rather than particular types of profits for a company. The UK, in making a change, also introduced another change that will impact on the banks or companies that are affected by the first change. It made a set of changes to the way in which the accounting of losses are dealt with. As I stated, while it is fair to compare our tax code with the tax codes of other countries in respect of how this issue is addressed, we also differ from other countries in terms of the small number of banks we have, the number of issues faced by the banks here, the State's large shareholding in the banking system and my desire to have more banks and greater competition in our banking sector. I of course can understand the political attraction but were that change to be made, other things would happen that would be of concern to our citizens. That is what this paper aims to lay out.

Chairman: Is the Deputy pressing the amendment?

Deputy Pearse Doherty: I wish to speak one last time on this. The changes Britain made in 2017 to reduce losses that can be carried forward from 100% to 25% applied to six banks of the 18 institutions and brought in £300 million. The changes were negative on the banking sector.

I did refer to the capital ratio, perhaps the Minister did not pick it up, in respect of the justification of the change at that time. That justification was related to the fact that these deferred tax assets would be accounted for with regard to the capital ratio. Therefore, if they were not there, the State's requirement to recapitalise the banks would no longer exist. The Minister rightly points out that the paper refers to the amount of deferred tax assets and the percentage they

make up of the capital ratio of each bank. It also is important to acknowledge that the proposed change on restricting the carrying forward of losses would not remove that percentage entirely. What it might do, as the paper outlines, is require the auditors to make a revaluation, through writing down the current value of the deferred tax assets, because if the losses carried forward are restricted to, for example, 25%, then the deferred tax assets still exist. However, a question which cannot be answered - I cannot, and nor could the Minister's officials - is whether auditors would require a write-down of the deferred tax assets. No one is suggesting they could not be accounted for in any shape or form, given their value. The value in the case of AIB, for instance, is €2.6 billion. Therefore the question is by how much would the auditor require that to be written down, given that the €2.6 billion of deferred tax assets continues to exist. My point is that the impact on the capital ratio of the banks would not be of such significance in respect of the current position compared with the position when the change took effect.

The Minister can park all that and decide. Britain is different to us but principles about taxation are similar. Poland and Italy are different to us, everywhere has a different tax code, but there are trends. I used Britain as an example to show that this is not something that has not been done before. A bank levy, a surcharge on corporation tax over what other companies would pay and a restriction to 25% on carried-forward losses is what applies in Britain. If banks had losses in other countries, for instance in Hungary, they would only be able to carry them forward for five years and at only 50% of the taxable income per year. I chose Hungary at random from a list of 23 countries that have restrictions on carrying forward losses.

The crucial point is that we had this in our tax code but we did it at a time when it did not have any effect because the banks were not profitable. However, AIB is now one of the most profitable banks in Europe. Its profits are a huge credit to it, but they are being generated on the back of high interest rates and some of them relate to the mortgage interest scandal and so on. AIB is hugely profitable and a bank that is seriously profitable and is still gouging the Irish public should be asked to pay corporation tax.

The worst thing about this is evident when we look at the banks' accounts. Take Bank of Ireland which has operations in Britain. Its accounts show the corporation tax it pays in Britain, including the surcharge, because it generates some profits there, but in Ireland there is no corresponding figure. It is zilch. That is not right. We are fools to allow this to happen. It is not appropriate. These are no longer small entities. Whatever about Permanent TSB, AIB made €1.5 billion in profits while Bank of Ireland made €1 billion, and that is likely to be repeated if not exceeded, but they are not paying corporation tax. The Minister made the point about doctors, nurses, members of the Garda and so on. I am not so naive to think that an economy in a recession will never recover, just as I made the point about the housing crisis, of course we will get out of it. It is wrong for the Minister to suggest I said there would never be a recovery; of course I acknowledged there would be a recovery. The point I made, and which I stand over, is that the Government's policies deepened and lengthened the recession, and that is also what the Government is doing with the housing crisis. I hope not, but will a Fine Gael Minister for Finance sit across here in ten years and say I claimed we would never get a handle on this housing crisis? We will of course but the issue is that the current policies are making it worse or are dealing with it inadequately.

The Minister is deflecting from the fact that the guy coming home from work and the nurse coming off her shift are paying their tax, while the bank that is charging them interest rates twice those charged by any other bank in Europe and is making profits of more than €1 billion is not paying any tax. The people who are to blame for that and who allowed that to happen are

sitting around this room. I definitely am not one of them but this is where these decisions are made. This is completely unfair.

Finally, on the report, I acknowledge the Minister brought it forward. I do not want him to write another one and to waste his time, I want him to act on behalf of the Irish people and stand up for the ordinary Irish person instead of protecting the banks. Protecting the banks is what this is about. Various scenarios are being mooted were we to do this or that, but it is nonsense. These are hugely profitable banks. Our competitors across the water can do this and they do this in other countries across the OECD but we will not. Why? The Minister has outlined no good reason here. The loss of value in shareholdings, even if he disposed of them all, would dwarf the amount of money that can be brought in. The technical paper that was produced was based on a 50% loss relief, I am arguing for a 25% rate, similar to that in Britain. The deferred access is not an issue. The point that AIB would be obliged to pay some tax on its €1.5 billion is no justification for increasing interest rates or fees. These are profitable banks.

Deputy Paschal Donohoe: The only people I represent are the Irish people. The idea that I am here to represent special interests is an incredible claim.

Deputy Pearse Doherty: The Minister acts on behalf of special interests.

Deputy Paschal Donohoe: No.

Deputy Pearse Doherty: He does. This is black and white. This is where the Minister shows which side he is on.

Deputy Paschal Donohoe: The type of allegation that Deputy Pearse Doherty is making

Deputy Pearse Doherty: Which side is the Minister on?

Deputy Paschal Donohoe: Deputy Pearse Doherty can shout. I will make my point because I am confident that the decisions I am making are the ones that will serve the best long-term interests of the people I am lucky enough to represent. The Deputy can make all kinds of claims against me, which is one way of conducting politics, but I am making a different point. I stand by my point, which is not deflection, but which cuts to the core of economic policy. I have debated against the Deputy many times and regularly still do. I debated against him, in particular, many times during the crisis and the darkest moments and I do not recall him ever saying a recovery would happen. All that was happening was that the Government of the day was slowing it down.

Deputy Pearse Doherty: That is what the Government did. There is no argument, that is what it did.

Deputy Paschal Donohoe: I am glad Deputy Doherty can make that claim now, with the passage of time, but it is not a claim that he was making then.

I have laid out all the different points in the banking paper that I was asked to. The Deputy said in an earlier part of his contribution that we should park for a moment the effects that this tax treatment change would have on the banks' balance sheets and capital ratios. The Deputy might be able to park that but, as Minister for Finance, I am not able to.

Deputy Pearse Doherty: I dealt with it in detail.

Deputy Paschal Donohoe: I am using the language and addressing the point that the Deputy made. He might be able to do it but I am not. The paper lays out that a change like that alone will have an effect on the capital ratios of the banks. That will have two effects, only one of which I can reasonably offer my judgment on. The other is based on what happens, and what has happened, on the valuation of our banks at different points in the recent past. That effect would then lead to other things happening that I do not want to see happening. I do not want to be in a position where the capital ratio of our banks is further compromised by a decision like this because I think it will do other things to our banks and economy that I do not want to see happening.

The second point is that the Deputy has a different view regarding whether the State should be a shareholder in our banks. I want to get our money back. The Deputy said many times that it was wrong that the Irish taxpayer is putting money into the Irish banking system. If the Deputy made that charge then, perhaps he could now accept the value in trying to get that money back. I want to get that money back. In time, I want to be in a position that we get back the nearly €11 billion we still have in our banking system, reduce our debt or, if another Government is in place with different views about that, it can use that money in a good way. I do not want it wrapped up in a banking system and I certainly do not want us to be in a position that, in a changing world, we are still in a position where we own large elements of the Irish banking system.

Deputy Pearse Doherty: The Minister made a fine job of getting the money back from Anglo Irish Bank, fair play to him. How much did we get back there?

We should never have pumped money into broken banks. We should not have socialised the debts and privatised the profits. When the banks are profitable, we should be getting it. This is not just coming from people like me. Directors of AIB have argued the same thing. We should not just be privatising a profitable bank after taking all of the pain.

Let me go back to the substance of the issue because I talked about the value of the bank. The issue of whether the Government wants to sell it or not is a different issue. I talked about the value of the bank and acknowledged that there would be a drop in value. I am not disputing the Department's Estimates but restricting the losses that can be carried forward would dwarf any loss of the bank's share value.

Everybody has their own debating tactics, but when I said to park the issue of the effects on the banks' balance sheet and capital ratios, I did not mean to forget about it completely. I made the point that the Minister's assertion to the committee gave the impression that the capital ratios of the banks would be wiped off by this amount. If the Minister read the entire piece, he would understand that is not the case. The Minister also makes the point that the report says that it will reduce the capital ratio in the banks. It does not say that. The report says there is an increasing likelihood that the auditors will require a reduction in value of the deferred tax assets. It does not say it will. There is no certainty whatsoever. It is an assumption of what may happen as a result of carrying forward losses. It says: "This would increase the likelihood that bank auditors would seek a write-down on the current value of the DTAs." If that is the big issue that the Minister is holding onto, then it is a very weak one.

I apologise for my tone of voice earlier, but I am passionate about this and I do not get it. This is where the Minister should cut out all the Bill. This is where he should act on behalf of interests, not personally, not like he has gone to AIB and asked what can he do for them; he is protecting that interest. The Minister is making choices. I have made this point to the Minister

time and time again. He is making choices. The choices he and his Government made have resulted in some of the crises we are facing. The housing crisis did not happen by accident. It was Government policy that decided not to invest in sufficient resources in housing. The trolley crisis did not happen by accident. The Government has not opened hospital beds that were closed down during the Fianna Fáil era, or invested in our health system in the capacity that is required to meet the needs of patients who are ill, vulnerable and suffering. The Government has acted to protect vested interests in three financial institutions. The Minister asked whether this amendment would apply to KBC or not. The amendment is not clear, but I have been on the record time and time again that this is about the bailed-out banks. This is about reverting to a position, and going beyond that, and taking it in line with Britain to restrict losses not to 50% but to 25%.

Deputy Michael McGrath: I have one more question for the Minister and it relates to page 8 and the section that deals with the capital position of the banks. It states: “Restricting tax losses would impact capital and put additional pressure on PTSB.” Table 3 then shows what the deferred tax assets represent as a percentage of each bank’s CET1 capital at the end of December 2017. The heading reads, “Restricting tax losses would impact capital and put additional pressure on PTSB” but, within the commentary, there is no further particular reference to Permanent TSB. Are there additional concerns relating to that bank arising from any change which is not spelled out here but which warranted a mention in the sub-heading for one bank but not the others?

Deputy Paschal Donohoe: I will deal with Deputy McGrath’s question first. He is right, I can see from scanning the text that Permanent TSB is only mentioned in the same way as the other two banks are and that is particularly the case in the third paragraph of the report.

Deputy Michael McGrath: My point is that PTSB is singled out in the heading but not in the text.

Deputy Paschal Donohoe: The Deputy is right. It is only mentioned in the same way as the other banks in the text. My view is that a change like this would have a particularly acute effect on Permanent TSB. That is a consideration for the policy and should have been spelled out more in the text of the report.

As to what Deputy Doherty has said, I am equally passionate in putting my views forward and I have outlined the views and the reasons I believe this change would ultimately inflict further harm on Irish consumers and taxpayers. That is my view.

Deputy Pearse Doherty: The Minister has nothing to back that up one bit.

Deputy Paschal Donohoe: It is fine for the Deputy to snigger.

Deputy Pearse Doherty: The Minister has nothing to back that up one bit.

Deputy Paschal Donohoe: It is fine for him to snigger.

Deputy Pearse Doherty: I am laughing, not sniggering.

Deputy Paschal Donohoe: I was unable to distinguish between a laugh and a snigger across the table. I will restate it. It is fine for the Deputy to laugh about it; it is no laughing matter for me. A further effect on Irish people who depend on banks and have shares in banks is something that should be avoided and if, as the Deputy said a moment ago, he believes the

money should not have gone into our banks, surely he will then join with me in efforts to try to get the money back. That is what I am trying to do.

Deputy Pearse Doherty: Tax them. It is a novel idea. Perhaps the Minister could ask them to pay some tax.

Chairman: Is the amendment being pressed?

Deputy Pearse Doherty: Yes.

Amendment put.

The Committee divided: Tá;, 2; Níl, 3.	
Tá;	Níl;
Doherty, Pearse.	Burke, Peter.
Murphy, Paul.	Donohoe, Paschal.
	McGuinness, John.

Amendment declared lost.

Staon: Deputy Michael McGrath.

Chairman: We have discussed amendment No. 133. Is the amendment being pressed?

Deputy Pearse Doherty: I move amendment No. 133:

In page 108, between lines 34 and 35, to insert the following:

“Report on restoring cap on intangible assets

27. The Minister shall, within 6 months of the passing of this Act, prepare and lay before Dáil Éireann a report on restoring the 80 per cent cap on intangible assets onshored between 2015 and 2017 that can be written off against profits at the rate of 100 per cent.”.

I withdraw the amendment and reserve the right to resubmit it on Report Stage.

Amendment, by leave, withdrawn.

Deputy Paul Murphy: I move amendment No. 134:

In page 108, between lines 34 and 35, to insert the following:

“Report on effect of increasing Corporation Tax

27. The Minister shall, within six months of the passing of this Act, prepare and lay before Dáil Éireann a report on the revenue gained from increasing corporation tax to 25 per cent for corporations with over €800,000 in profits and in closing loopholes that exist that allow corporations to hugely reduce their rate of tax.”.

Amendment put and declared lost.

Section 27 agreed to.

SFPERT

Question proposed, "That section 28 stand part of the Bill."

Deputy Paschal Donohoe: This section amends section 603A of the Taxes Consolidation Act 1997. That section provides relief from capital gains tax on the transfer of a site by a parent, or both parents simultaneously, to a child of the parents or one of the parents or on the transfer of a site by a civil partner, or both civil partners simultaneously, to a child of either civil partner, where the transfer is to enable the child to construct his or her principal private residence on the site. The area of the site must not exceed 1 acre and the value of the site must not exceed €500,000. Section 603A is amended to allow both a child and his or her spouse or civil partner to avail of the relief.

Question put and agreed to.

SECTION 29

Question proposed, "That section 29 stand part of the Bill."

Deputy Paschal Donohoe: This section amends section 604B of the Taxes Consolidation Act 1997. That section provides for CGT relief for farm restructuring where the first transaction takes place by 31 December 2019. Individuals who avail of this relief are required to provide certain information to the Revenue Commissioners. The section is amended to ensure that the information is furnished by an individual on a form provided for that purpose at the same time as a tax return is submitted by that individual. In addition, the amendment will ensure that the requirement to provide information to the Revenue Commissioners relates to when the entitlement to relief arises rather than the date of the disposal.

Question put and agreed to.

SECTION 30

Chairman: Amendment No. 135 has been ruled out of order.

Amendment No. 135 not moved.

Question proposed, "That section 30 stand part of the Bill."

Deputy Pearse Doherty: I am considering tabling an amendment to this section on Report Stage. I take issue with the 12.5% tax rate. I welcome the fact that we have a strengthening of the exit tax - obviously, the last one was not fit for purpose - but I am concerned about the rate applicable. I believe the 33% rate should apply. Even if the Minister were not to go with that, one would imagine that exit tax would be at the rate of corporation tax on non-trading profit, which is 25%. Perhaps the Minister could provide clarification on the tax strategy papers because they say the responses to the coffee consultation focused primarily on the rate to be applied in the case of exit tax, with the majority favouring a 12.5% rate. From my scanning of the submissions, I understand only KPMG proposed a 12.5% tax rate. As far as I understand, only one submission actually suggested a rate. If there was only one submission, that submission is the majority, but it is not really the majority. I am concerned that the rate chosen here is too low and not appropriate. The corporation tax rate on non-trading profit, at 25%, would at least be more appropriate, but the exit tax rate should be set at 33%.

Deputy Paschal Donohoe: I introduced the rate on the basis of what other jurisdictions have done in this regard. The anchor they used for their exit tax was what their rate of corporate tax was and is, so I made a decision on that basis that our exit tax would be consistent with our

existing rate of corporate tax. I brought this regime in earlier than I had previously indicated. The introduction of an exit tax regime such as this is an important part of what we need to do for our overall corporate tax regime. As I said, by introducing it at a rate that is consistent with our corporate tax, CT, rate, I am doing what some other jurisdictions have done.

Deputy Pearse Doherty: We have two rates of corporation tax, though: one on trading profits and another on non-trading profits. Would the rate on non-trading profit, the 25% rate, not be more applicable in respect of this exit tax? Will the Minister clarify that it was only one submission that suggested the rate which-----

Deputy Paschal Donohoe: To respond to the second point, I was not influenced by submissions on the point. I always acknowledge that submissions have come in but, in the engagement I had with my Department on the matter, it was more about the principles of the proposals. To respond to the first point the Deputy put to me, would it be acceptable to him if I dealt with it on Report Stage?

Deputy Pearse Doherty: Excuse me?

Deputy Paschal Donohoe: Would it be acceptable if I gave the Deputy an answer to the first point in advance of Report Stage?

Deputy Pearse Doherty: On the point about the submissions.

Deputy Paschal Donohoe: No, the point about the 33% rate.

Deputy Pearse Doherty: Yes. I will deal with the matter on Report Stage, so that is fine.
Question put and agreed to.

NEW SECTION

Deputy Pearse Doherty: I move amendment No. 136:

In page 118, after line 42, to insert the following:

“Report on CGT exemption or reduction

31. The Minister shall, within 6 months of the passing of this Act, prepare and lay before Dáil Éireann a report on a possible CGT exemption or reduction in cases where a carer moves into a relative’s home to care full time and ultimately, following the death of this relative, moves into the home full time and sells their original home.”.

This amendment seeks a report on the CGT exemption or reduction in cases in which an individual moves into a relative’s home to care for him or her full-time and ultimately, following the death of the latter, moves into the home full-time and sells his or her original home. I would be interested to hear the Minister’s views on such a case. The origin of this proposal was a case in which a couple had moved into one of the partners’ mother’s home for a number of years, caring for her prior to her death. During this time the couple rented their own house out. They are now selling that house and will use a proportion of the proceeds to pay the remaining siblings to allow them to remain in their mother’s house as it is mobility-adapted, which also suits their needs. However, as they did not live in their own home for a number of years, they are liable for CGT, although with a partial exemption. The question I am raising in proposing the preparation of a report is whether there is a case to be made for a person who

moves out of his or her home to act as a carer for a family member to be exempt from CGT altogether. I think there are a limited number of such cases, but the Minister can understand that the current position could be a deterrent to someone doing something that is right and appropriate in moving into his or her parental home to care for a parent, as a result of which, because the individual was not living in his or her own home, which he or she is now selling, there is an issue with CGT.

Deputy Paschal Donohoe: To deal with the issue that is behind the report, as opposed to the report itself, from what the Deputy has just said and what his amendment proposes, I understand that he is referring to circumstances in which an individual moves out of his or her main residence to move in with a relative to care for the relative on a full-time basis and then, following the death of the relative, the individual inherits the relative's property and subsequently disposes of his or her original residence. Is that right?

Deputy Pearse Doherty: That is correct.

Deputy Paschal Donohoe: As I understand it, what the Deputy is raising here is whether we should consider either a reduced rate of CGT or a CGT exemption in respect of the disposal of the person's main residence in the aforementioned circumstances. Furthermore, I assume the Deputy is referring to the possible changes to the operation of the existing capital gains tax principal private residence relief. Principal private residence relief provides that any gain made by an individual on the disposal of his or her dwelling house together with land occupied as its gardens or grounds up to an area, exclusive of the site of the residence, of 1 acre is exempt from CGT. For full relief to apply, the dwelling house must have been occupied by the individual as his or her principal private residence throughout his or her period of ownership of the house. There are strict rules concerning the operation of principal private residence relief. For example, where a wife and husband own two properties, one of these properties is deemed to be the residence for the purposes of the relief. Where the house is not occupied full-time during the whole period of ownership, only the proportion of the gain applicable to the period of occupation is exempt and any other part of the gain is taxable. In this regard, the dwelling house is treated as having been so occupied for a period of up to a year after the cessation of occupation, that is, up to the final 12 months of ownership may be deemed as a period of occupation. This is usually intended to meet the case where the owner occupier puts his or her house up for sale and moves out but cannot find a buyer immediately. Therefore, in the case in which a person or family moves into a parent's or other relative's home and then seeks to sell the original home, an exemption from CGT will be available on the portion of the gain for the period in which the original home was the person's only or main private residence. I would have concerns about the potential impact of introducing changes or expanding the operation of principal private residence relief for the following reasons: that relief is a generous relief available to all individuals who own and occupy a dwelling house. It is important that this relief is not undermined. The operation of the relief is currently straightforward and transparent and the extension of the relief to include the scenario presented by the Deputy may include unintended consequences which could open up the relief to potential abuse. Thus, it would be possible for an individual to establish principal private residence relief on one property and then move to their relative's property allowing the person potentially to acquire two properties with either a reduced rate of CGT or no CGT.

There are further operational matters such as defining a carer because, as the Deputy will appreciate, caring can cover a short period. In any event, the current operation of principal private residence relief permits individuals to move in with their relatives to carry out caring duties. Depending on the particular facts of the situation, if the individual disposes of their principal

private residence within 12 months of moving out of their home, then full relief from CGT is available.

Those are the reasons I do not think we can do this. It does imply to me that if I make this available to the Deputy he is looking for a report and in fact what I have read out is a brief report on the matter. If the Deputy wants I can write to him with a summary of these reasons.

Deputy Pearse Doherty: That is fine, I do understand the potential unintended consequences and we have seen how we have had to tighten up on some of these reliefs and how they have been abused in the past. This is just a hard case and I imagine there are only a few of them but the Minister can imagine the individual feeling hard done by because they are doing the right thing which the State should support but we penalise it through the tax code when they sell their primary residence. I may consider it again on Report Stage.

Real consideration is needed to find a way to deal more compassionately with people in these circumstances without these unintended consequences, notwithstanding the issues the Minister has raised of how to prove they have moved in, who is a carer and all of the complexities that come from that. Maybe in the course of preparing tax strategy papers or whatever this might warrant further consideration.

Deputy Paschal Donohoe: I would be happy to do that if the Deputy is willing to withdraw the amendment in the context of the tax strategy group, TSG, papers. He is raising a very specific issue. We do examine the CGT regime. We will consider whether there are options in respect of it and will publish this part of the TSG papers in the summer.

Amendment, by leave, withdrawn.

Section 31 agreed to.

SECTION 32

Chairman: Amendments Nos. 137 to 140, inclusive, in the name of Deputy Brophy, are out of order.

Amendments Nos. 137 to 140, inclusive, not moved.

Section 32 agreed to.

SECTION 33

Chairman: Amendment No. 141 in the name of Deputy Burton is ruled out of order.

Amendment No. 141 not moved.

Question proposed "That section 33 stand part of the Bill."

Deputy Pearse Doherty: Does this section relate to the increase in betting duty?

Deputy Paschal Donohoe: Yes.

Deputy Pearse Doherty: I raised this on Second Stage and repeatedly raised it with the Minister's predecessors all the way back to Brian Hayes when he indicated that there might be some movement on this. The basic increase in betting duty and the way that it is formed will have a major impact on small retail outlets. We have argued for a long time for a 3% betting

duty to be placed on winnings and to be paid by the punter. That existed many years ago at the higher rate of 10% and more. I have engaged with different parts of the sector which disagreed with the proposal. During those conversations some of them showed me their books and that is how I know an increase of 1% on betting duty will wipe out their profits. It will also create a playing field that is not level because the large operators, which are well-known to us all, can absorb this and the small retail outlets cannot absorb it. That is why I think it is important that it is on the winnings where it does not make much difference because the percentage of winnings relative to the stakes is quite high. It is imposed on the individual.

If we want to consider betting as a vice, as opposed to increasing the level of revenue generated by the sector, that is one of the better ways to deal with it because an additional €3 would have to be paid on a €100 punt. I am seriously concerned that this will have an impact on the sector and on jobs, primarily in rural Ireland. The Minister should consider a different approach and, rather than impose the levy on the profits of the retailer, impose it on the individual placing the bet.

Deputy Michael McGrath: We have all engaged with stakeholders on this issue and I do not think there is an objection to increasing the tax take from this sector. The question is how to do it in a way that minimises damage to employment in the domestic economy. I understand that the Irish Bookmakers Association has made an alternative proposal. I am not sure if the Department has had an opportunity to assess that properly but it proposes a tax on gross profits at the rate of 10% for retail bookmakers and 20% for online bookmakers. The suggestion from them and others is that if the proposal as announced on budget day and in the Finance Bill 2018 proceeds it will result in the closure of hundreds of outlets. We have to probe that and not take it at face value.

I too have looked at some accounts and think it is undoubtedly the case that going from 1% to 2% will result in the closure of some bookmakers. Is there any other way of doing this that does not cause so much damage, particularly to retail bookmakers and the employment they provide? What engagement, if any, has there been between the Minister or the officials in the Department with stakeholders since the announcement on budget day and is there any scope for an alternative measure which would bring in additional revenue but perhaps not have the same consequences?

Deputy Peter Burke: On section 33, I would also be concerned for the smaller operators within the market. A number of audited accounts have been circulated by various smaller operators, some of which are in my constituency. Turnover taxes are crude by their nature. They do not reflect profitability because they are based on turnover. I was looking at the certified audited accounts of one particular small chain, all of whose outlets are located in provincial rural Ireland, which were accompanied by a letter from the chain's accountant. The accounts show that it had a profit of €307,000 after taking a reasonable level of remuneration for directors out of the business. It is currently paying taxes of €839,000. That is made up of VAT, corporation tax and PAYE. It pays rates of €66,000. If this proposal to move from 1% to 2% was to go ahead that profit of €307,000 would become a loss of €448,000. That business would essentially no longer be viable and its 109 employees would be made redundant.

I know that we are in a growing economy but any jobs in rural Ireland have a premium attached to them because we are trying to advance a policy of balanced regional development. It will be very difficult for people of that nature and with that skill set to be redeployed in rural areas. I therefore have to question the projected yield of the increase in tax if a lot of small independent bookmakers will almost certainly go out of business. The business will be centralised

into a small number of international players. Tax is often levied for public policy purposes and in the interests of the common good. One generally tries to ensure taxes are fair and equitable. It is unusual to see a tax that, if implemented, would necessitate immediate job losses from small independent bookmakers in the sector. That concerns me.

Last week a lady who works in a small independent bookmakers came into my clinic. She has got a mortgage and bought a house in rural Ireland. She is of the view, as am I, that her job will definitely be gone if this tax is implemented in the manner proposed. It is worth pointing out that when this levy was first changed, at the height of the recession in 2009, that change was reversed within two months. That was when we were in a crisis. We are now in a time when there is more money available. I am not disputing the increase in the tax. How we structure it is critical. There are ways to structure a tax that will not penalise those at the bottom of the market - those who are struggling and finding it very difficult to make ends meet. That is where I would be concerned. We need to have some fairness and to structure this tax in a way that allows smaller operators to survive.

Deputy Paschal Donohoe: I thank the Deputies for their contributions. To open with a broad point, this is a sector that has done well. The turnover and profitability within it are very significant. Across the period in which the sector has been getting to this point, the taxes levied on it have changed and decreased. I am of the very strong view that all sectors of our economy should be making an appropriate level of contribution to funding public services and all of the needs we have. We went to the industry last year as part of the operation of the tax strategy group. When we published the papers I indicated that this was something at which I wanted to look. I wanted to look at how more of a contribution could be made by the sector in its tax contribution. We looked at each of the points being put to us now at that time.

We put the idea of taxing the punter forward and discussed the proposal last year. It was completely rejected by the industry. This was not a route it wanted to go down. It did not want to be in a place in which the punter would be taxed. It was rejected by the sector. Even leaving aside the fact that the sector is rejecting it, this is not a change I would want to make either. In the future we could look at whether we need to ask the punter to make a further contribution, but I believe it is the economic activity in the sector that needs to make more of a tax contribution in the future. If we move to the punter making the contribution the amount all those involved, whether big or small, would pay would be nil. That is not sustainable. It should change.

To look at the views put to me in respect of gross profitability, again we went through an open consultation with the industry last year. There did not appear to be any interest in this then. We received a proposal in respect of gross profitability from the industry last week. I am willing to look at it and consider it, but we went through all this last year. We had engagement with the sector last year and we could not get unanimity with regard to a new way to make a contribution. I am happy to engage with the industry on how this could change in the future, but the measure in the Finance Bill, the change we seek to make that I announced on budget day, is the right policy for next year.

Deputy Pearse Doherty: The Minister made the point that he got a proposal from the industry just last week and that he is willing to consider it. I assume that will be post this Finance Bill.

Deputy Paschal Donohoe: Yes.

Deputy Pearse Doherty: Has the Minister been across the audited accounts of some of the

retail bookmakers? Given those audited accounts, is he aware of the impact this measure will have on these bookmakers' profitability or on taking them out of profit into loss? How does the Minister respond to that?

I acknowledged that the industry does not want a tax on the punter. A consultant economist has written a paper on this which suggests that winnings are recycled. I do not necessarily subscribe to that idea. I do not think people just go and bet. I bet myself the odd time. I do not think we should close the system down but I acknowledge that there are people who are addicted to gambling and that it can be very dangerous at times. That is why it is important to place a tax on the consumer. I have made this point numerous times. I can remember going to the bookies with my father as a child and there was a 10% levy at that time.

That sound outside the room must be the winds of change blowing.

Deputy Paschal Donohoe: The change does not sound good.

Deputy Pearse Doherty: Perhaps the Minister can respond to that point on the audited accounts. I find myself in a difficult position because I have advocated for an increase in this tax for many years but I cannot support increasing the tax in this form because it will have a real negative impact on jobs and outlets in the most rural parts of Ireland. The only beneficiaries in the long term will be the Paddy Powers of this world. I am not taking anything away from Paddy Power and its operation, but that is where this is going to go. I understand there is no unanimity in the sector.

Deputy Paschal Donohoe: If the Deputy ever finds himself in a position to make these changes himself he will find that one cannot make changes that will deliver a significant yield without running the risk of having significant and potentially negative effects somewhere. I am saying that openly to the Deputy. If one is trying to find ways of raising additional revenue, there is no way to do it that does not create a risk for somebody else.

I have not seen those audited accounts the Deputy referred to, but staff from my Department have seen some of them and I have been briefed on them. I am aware that this creates an additional significant risk for smaller independent bookmakers. It will create difficulty for them, and they will have to make choices in how they respond. My Department went through this last year. We engaged, and we published the tax strategy paper, which makes clear to anyone reading it that I want to consider this issue. Deputies might remember that there was a fair bit of media commentary last year, and an expectation that it was going to happen but it did not happen. We engaged in consultation with the sector, and even now there is no support from within the sector for some of the proposals being put forward by the Deputies. Perhaps we can learn from this that when the Minister of the day indicates that a sector needs to make more of a contribution than it has in the past, it will mean that the *status quo* will not continue into the following year. We could not get agreement on any other option. The idea of the gross profit tax was shared with us last week. If this is a concept that the industry is genuinely interested in and is something in which it wants us to engage, we will do so. However, I am clear that the measures I am bringing in will not be changed. We went through this a year ago and we could not reach agreement on an alternative model. I have to look at the choices available to me.

Deputy Peter Burke: I understand what the Minister is saying. I practised in tax, and I cannot think of a single sector in which unanimous agreement could be reached on how it should be taxed. The Minister has to take decisions, and he is used to taking and making difficult choices. Regarding the structure of this, I question the yield projected on the basis that

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if one takes a particular decision, the smaller elements in the industry will be wiped out. My concern is that it creates a significant risk for our smaller operators. From the audited accounts on view, the only option available to those businesses is closure because they will not be able to finance the loss caused by the increase in tax.

Chairman: We have heard the views of the Minister so the members now have to make a decision on section 33.

Question put.

The Committee divided: Tá;, 3; Níl, 1.	
Tá;	Níl;
Burke, Peter.	Doherty, Pearse.
Deasy, John.	
Donohoe, Paschal.	

Question declared carried.

Staan: Deputies John McGuinness and Michael McGrath.

Progress reported; Committee to sit again.

The select committee adjourned at 10.15 p.m. until 10 a.m. on Thursday, 8 November 2018.