

DÁIL ÉIREANN

SELECT SUB-COMMITTEE ON FINANCE

Dé Máirt, 17 Samhain 2015

Tuesday, 17 November 2015

The Select Sub-Committee met at 4.00 p.m.

MEMBERS PRESENT:

Deputy Tom Barry,*	Deputy Ciarán Lynch,
Deputy Richard Boyd Barrett,	Deputy Michael McGrath,
Deputy Ciarán Cannon,+	Deputy Michael Noonan (Minister for Finance),
Deputy Michael Creed,+	Deputy Kieran O'Donnell,
Deputy Pearse Doherty,	Deputy Peadar Tóibín.+
Deputy Alan Farrell,	
Deputy Noel Harrington,*	

* In the absence of Deputies Ciara Conway and Brian Walsh, respectively.

+ In the absence of Deputies Kieran O'Donnell, Alan Farrell and Pearse Doherty, respectively, for part of the meeting.

DEPUTY LIAM TWOMEY IN THE CHAIR

Finance Bill 2015: Committee Stage

Chairman: I welcome the Minister for Finance, Deputy Noonan, and his officials who will accompany him during our consideration of the Finance Bill 2015. The purpose of the meeting is to consider the Finance Bill 2015 which was referred to the select sub-committee by Dáil Éireann on 10 November 2015. The times by which the sub-committee must complete its consideration of specified groups of sections and the amendments addressed to these sections are determined by an allocation of time order made by the Dáil on 12 November. The order has been circulated to members. The order of the Dáil provides that any division claimed on the proceedings of the Bill must be postponed until immediately before the time set for the relevant guillotine or, if proceedings conclude before the time for the guillotine is reached, on completion of those proceedings. The putting of any question which is contingent on a postponed division must similarly be postponed. Is it agreed that we take a short break at 6.30 p.m. and resume consideration of the Bill at 7 p.m.? Agreed.

Deputy Richard Boyd Barrett: I will be gone after 7 p.m. as I have another engagement.

Chairman: That is okay. I remind everybody that all mobile phones must be switched off.

Section 1 agreed to.

NEW SECTION

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

In page 7, between lines 16 and 17, to insert the following:

“2. In the case of public service pensioners who are not in receipt of a contributory social welfare pension, universal social charge will be reckoned on their gross total public service pension(s) less the amount of contributory social welfare pension commensurate with their length of pensionable service.”.

I am moving the amendment on behalf of Deputy Seamus Healy.

Minister for Finance (Deputy Michael Noonan): The universal social charge, USC, was introduced in the 2011 budget to replace the income levy and the health levy. It was a necessary measure to widen the tax base, remove poverty traps and maintain revenue to reduce the budget deficit. It was a more sustainable charge than those it replaced. It is applied at low rates on a wide base. The USC, like the income levy before it, does not apply to social welfare payments such as contributory and non-contributory State pensions and similar payments. However, occupational pensions, including those of retired civil servants, are liable to the USC if the payment is greater than the exemption threshold, which for 2015 is €12,012. Public servants who enter the public service before April 1995 are, or were, in the case of retired individuals, liable to a reduced, modified PRSI rate which does not generate an entitlement to the State pension. Such individuals receive a proportionately higher occupational pensions than post-1995 entrants who pay class A PRSI and therefore such individuals do not generate an entitlement to the State pension.

As Deputies may be aware, delivering on a commitment in the programme for Government, my Department reviewed USC during the lead-up to the 2012 budget. The report is available

on www.finance.gov.ie. The issue of USC applying to occupational pensions of retired public servants who entered the public service before April 1995 was examined as part of the review and the Government decided not to exempt the occupational pensions of these people from USC given that it would be very costly and difficult to achieve. It is unlikely that such an exemption could be achieved without providing a similar exemption to other income earners and occupational pension recipients, particularly those in receipt of occupational pensions who do not have an entitlement to an Irish contributory State pension. Technical difficulties would arise with the design and administration of such a relief in view of the fact that a contributory social welfare pension entitlement may vary significantly between individuals, depending on factors such as number of contributions, dependants and the age of the pensioner and any dependant. Finally, such an exemption would also undermine the principle of the USC being applied to income on a broad basis with few exceptions.

In view of these issues, and as a result of the review of the USC, the Government decided in budget 2012 to increase the entry point to the universal social charge from €4,004 to €10,036 per annum, in order to take very low-income earners out of the charge to USC.

Budget 2015 provided for an increase in the exemption threshold to €12,012, equalising the position for single individuals whose sole source of income is the State contributory pension with public service pensioners whose pension is at an equivalent level. Budget 2016 has further increased this threshold to €13,000 per annum from 1 January 2016. It is estimated that over 700,000 income earners will not be liable to USC at all from next year.

Budget 2016 is continuing the process, commenced in budget 2015, of reducing the tax burden on low and middle-income earners including, among other changes, a decrease in the three lowest rates of universal social charge with effect from January 2016. For the reasons outlined, I do not propose to accept the amendment.

Deputy Richard Boyd Barrett: As I stated, it is Deputy Healy's amendment. I merely wanted to get the Minister's response for the record. Is the Minister saying it is primarily for technical reasons that he cannot accept the amendment?

Deputy Michael Noonan: First, it would be very expensive, and then there are technical considerations that would make it hard to do. There would be crossovers through other pensioners whose pensions were from other sources. For all those reasons, I am not prepared to do it.

Deputy Richard Boyd Barrett: Does the Minister have a figure for how expensive it would be?

Deputy Michael Noonan: We do not have an estimate but there is general recognition that it would be quite expensive.

Deputy Richard Boyd Barrett: I presume Deputy Healy will come back to this issue on Report Stage.

Amendment put and declared lost.

SECTION 2

Chairman: Amendments Nos. 2, 4 and 6 are related and may be discussed together.

Deputy Michael Noonan: I move amendment No. 2:

In page 8, between lines 23 and 24, to insert the following:

“(2) *Subsection (1)* applies for the year of assessment 2016 and each subsequent year of assessment.”.

These three amendments are being discussed together because they all relate to a similar technical amendment which is to be made for the purposes of clarity, and to ensure that the provisions operate as intended.

The amendments clarify that the changes to the universal social charge, the introduction of the new earned income credit and the amendments to the home carer tax credit, as announced in the budget, apply for the years of assessment 2016 and subsequent years.

Amendment agreed to.

Question proposed: “That section 2, as amended, stand part of the Bill.”

Deputy Peadar Kirby: One of the issues my party has with what the Government has done to the USC is that it seems to have had the effect of widening the gap between rich and poor. Social Justice Ireland indicated that the gap between those who are on social welfare and those who earn €50,000 has widened because of these measures and the measures the Government has implemented.

It is quite shocking that €190 million will be given back to those who are earning over €70,000, that is, the richest 14% in society, and at the same time Government investment is likely to fall over the next number of years. Would it be better to ensure that the gap to which I refer does not increase and that the Government has the necessary investment funds?

Over the next five years, the Government will have a fiscal space of approximately €8 billion. I note the Government has indicated that it will seek to reduce USC continually into the future. If one were to get rid of USC, it would involve a reduction of €4 billion in that period, which is half that fiscal space over the five years. Given the crisis in housing, health and so many aspects of society, surely it is the wrong direction for the Government to be taking that the fiscal space reduction would be so heavily weighted towards income tax rather than service provision expenditure.

Deputy Michael Noonan: The Department of Social Protection, as is usual, conducted a social impact assessment of the welfare and income tax measures in budget 2016, with input from the Department of Finance and the Department of Public Expenditure and Reform. The main findings are that average household incomes will increase by 1.6% or €14 per week as a result of budget 2016; there are higher than average gains for the bottom two quintiles, while the smallest gain is in the top quintile; social welfare measures primarily benefit the bottom two quintiles; child expenditure, though universal, favours lower income households; income tax changes, though spread across all quintiles, are most beneficial to middle and higher-income groups; households with children are the biggest beneficiaries from budget 2016, in particular, working lone parents; households without children gain less than the average, with unemployed single persons showing the smallest increases; there is no significant change in the at-risk-of-poverty rate, as social transfers continue to perform strongly in reducing poverty; the budget provides greater rewards for working, with over 80% of the unemployed being substantially better off in work; the impact of the increase in the national minimum wage is quite significant for the small minority of households affected, with middle-income quintiles gaining the most; and compared to the previous year, budget 2016 delivers considerably bigger gains to the poor-

est households. The assessment contradicts Deputy Tóibín's argument.

Admittedly, if one picks out only one element of the budget, such as USC, personal tax reductions, it is the nature of tax reductions that the more one earns, the more one gets if tax is reduced. That is obvious. However, we deliberately balanced the gains for those on middle incomes with gains through social welfare and the minimum wage for those on low pay. The assessment is as I have outlined.

Deputy Peadar Tóibín: I understand what the Minister is saying and that elsewhere in the budget there could be provision to ameliorate the incidents of greatest benefit on upper income holders through USC. However, those who earn over €200,000 will get a break of €902 due to this cut in USC. That €902 is an opportunity cost to the State when the State is finding it difficult to allow for a centenarian to find a bed in a hospital, to find a house for one of the 130,000 persons who are on housing waiting lists or to ensure that children with a disability going into preschool have an SNA. When one weighs up that €902 and the value the State could get in alleviating some of these difficulties, surely that €902 is a cost to the State that did not have to be borne. The richest 14% are getting back €190 million, which is a multiple of the €18 million extra that went into the health service or the €69 million extra that went into housing. The decisions are weighing heavily against those who are at the edge and who are very vulnerable at present but are benefiting in real terms those who are on wages of €150,000 or €200,000 a year.

Deputy Michael Noonan: Deputy Tóibín's argument only has validity if one believes in a society where everybody in the labour force gets paid the same. If everybody in the labour force gets paid the same, when tax reliefs are applied, everybody will get the same relief. If we believe in a labour force organised on the basis that people with additional responsibilities, in promotional posts or who work longer hours have more gross pay, if we use income tax and universal social charge, USC, as the method of giving relief, it is self-evident that people on a higher income from a particular source will gain more than people on lower incomes. The budget has a number of policy instruments and by using a mix, we can change the distributional effects, as I outlined in the social impact study by the Department of Social Protection.

To return to the Deputy's point, taking the examples given of people who are low-paid or high-paid, currently a single individual employee on the minimum wage of €17,542 per annum pays income tax of €4.01 and universal social charge of €7.19 per week and is exempt from paying PRSI. This effective tax rate is therefore 3.3%. As a result of the changes introduced in the 2016 budget, a minimum wage worker will see an increase in gross income of €1,014 to €18,556. Despite this increase in gross income, the weekly universal social charge will reduce to €6.09 per week. A full-time minimum wage worker will see a 4.2% increase in net income as a result of the measures in the 2016 budget.

In contrast, a single employee earning €70,000 per annum currently pays €24,785 per annum or over €476 per week in income tax, USC and PRSI. After the 2016 budget, such an individual will see an increase in net income of 2%, less than half that of the minimum wage worker. The minimum wage worker will get an increase of 4.2% whereas the single person on €70,000 gets a 2% increase. The Deputy's criticism is only valid if he believes in a labour force where there is equal pay right through it, regardless of qualifications, responsibilities or hours worked. If personal taxes are reduced, the impact of a reduction in such taxes will be greater for people who pay much in personal taxes as against those who pay a little in such taxes.

Deputy Peadar Tóibín: If a person works hard, uses his or her "smarts" and takes responsibility and risk, he or she should be economically compensated. One needs that spark within

an economy for the economy to function. Ireland has one of the biggest disparities between rich and poor internationally. I am not just talking about making sure that people who work hard and use their smarts get properly paid, with a fair distribution of income.

We are talking about a society where people are currently struggling to live. For example, I know a 68-year-old woman who had a stroke and waited 45 minutes for an ambulance to arrive at her house because of a lack of ambulances. When she went into hospital, she had to wait 13 extra weeks to get into the National Rehabilitation Hospital. She had another stroke and a nurse was pulled away from her when she was in the hospital shower, leading to her falling and sustaining a head injury. After that she had a blood transfusion with the wrong blood. This is just one example of a person with four engagements with the health service and due to the nature of its crisis, that health service has reduced her life expectancy and quality of life by a massive amount. This woman is now looking at a life in a nursing home.

I am not just saying we want a fair distribution of income but rather that €169 million given to that cohort while this woman cannot access a health service unless it damages her is the wrong decision at the wrong time. The Government needs a system to ensure that those on €200,000 are not getting back an extra €902 through a USC cut at the same time as what I outlined is happening to citizens.

Deputy Michael Noonan: Except in very general terms, there is not a crossover between the sympathetic way in which the Deputy outlined a particular case for an elderly person and the personal taxation measures in the budget.

To return to the Deputy's original point, if we believe in a society where people get paid for their smarts, longer hours worked and the responsibilities taken on, as the Deputy suggests, to keep a spark in an economy to keep things going - in essence, to incentivise people - surely the same applies when tax relief is applied. Otherwise, the rules are being changed. We made a major change in not following the Deputy's formula by capping the reliefs at €70,000 per income. If we followed the Deputy's "spark" argument, we would not have capped it at €70,000 but run it up to the highest incomes in the country. The Deputy cannot have it both ways and if that is the kind of society in which he believes, it is an inevitable consequence of that model, which I believe in as well, that people on higher incomes seeing relief through personal tax reductions will get more in euro than a person on a lower income but with the same percentage relief. To avoid extravagant gains, we have capped this at €70,000. As I noted, the single person on €70,000 pays a tad under €25,000 in personal taxes, so the take-home pay is just over €45,000 after personal taxes.

The Deputy raised another factor in suggesting we have the most unequal society in terms of income distribution across the developed world. That is untrue. Independent research has demonstrated that Ireland's system of taxation and social welfare transfers has the highest impact on improving direct income equality among all OECD countries.

Deputy Peadar Kirby: That is an argument for what I have just said. Direct transfers are needed to ameliorate the disparity between rich and poor. That makes my argument.

Deputy Michael Noonan: No Minister for Finance goes into a budget without knowing he or she has a number of policy levers. To pass the equality test, all the policy levers with an influence must be pulled. It would not be possible to deliver very significant relief to people on low income but it is possible to do so when the minimum wage is increased, exempting those people from USC or reducing the rate. In that case, there can be a number of policy instruments for

delivery. It is not an exact science and there are still anomalies. I have spent much time trying to see if we could do anything for people on approximately €25,000 or €26,000 who are single. If we examine the bands, we can see that they come out worst in percentage terms, but I could not find a way of doing that without seeing knock-on effects to distort the pattern elsewhere. We will revisit that in the next budget if we are around.

Deputy Richard Boyd Barrett: The Minister's first comment was that in some ways the view on these matters depends on the overall view of society. In some ways it is a philosophical discussion that is probably wasted in this type of forum and dealing with this Bill. Just for the record, it is worth putting the alternative view.

The first issue is the immediacy of these measures. I do not see how anybody can justify giving anything to people earning in excess of €70,000, €100,000, €150,000 or €200,000 if it comes at the cost of being able to assist people now living in poverty in getting out of poverty. In other words, even if I accepted the Minister's philosophical view that we need to incentivise people at the top, and I will make a point about that later-----

Deputy Michael Noonan: Deputy Tóibín had to agree with me.

Deputy Richard Boyd Barrett: I do not agree with the Deputy on certain issues at all, although I agree on some matters. At a basic level, there are people who are working but who cannot afford to pay rent. There are civil and public servants coming to my office who cannot pay rent and who are using homeless services or sleeping in cars. When that is happening, regardless of ideology, every single bit of available relief should go to helping such people. Let us forget about ideology, philosophy and incentivising people at the top. I maintain there is simply no justification for giving to those on €70,000, €80,000, €100,000 or more in this way. Whatever else one may say about those people, they can pay the bills. They are not in danger, for the most part, of losing their homes. However, the vast majority of people on low pay are in a situation where they are actually having difficulty keeping roofs over their heads.

We have this problem and it is getting worse. The take-home pay of people is insufficient to cover the bills and keep a roof over their heads. Against that background, does the Minister not accept that he simply must engineer tax changes such that every cent is directed at bringing that group up to the point where they are not coming home after a week's work unable to pay to keep a roof over their heads? Whatever way the Minister wants to do it is fine - I do not care. It is self-evident that we should do this and, against that background, what the Minister has done is simply not good enough.

The Minister may argue that he has capped the benefits that may have accrued otherwise. I accept the Minister has done that, but in the current scenario whereby we have the phenomena of the working poor, far more radical measures are necessary, and I do not believe they are contained in the budget.

Does the Minister recognise the connection between growing wage differentials among top earners and low and average earners? That gap is growing all the time. It is connected to growth in inequality generally and wealth inequality in particular. Any serious studies undertaken on the subject confirm that the wage and salary hierarchy contributes over time to a growing gap between rich and poor. In other words, if a person earns €100,000 or €150,000 per year, he need not spend all of it to stay alive. The person can save and invest. That money makes profit for him and it accumulates over time. By contrast, the person on low income who has to borrow to pay the bills or do most things is getting poorer on a cumulative basis over time.

Wage differentials contribute to growing wealth inequality. There is a significant if not a majority consensus now to the effect that the wealth inequality flowing from income inequality is one of the biggest problems we face. This is clearly evident in Irish society, just as it is a pattern throughout the world. In approaching budgets, we should seek to address that and rebalance things. We should have taxes that are redistributive, Robin Hood taxes, if I can put it that way. They should take from the rich to give to the poor because the gap is too big.

I will offer an obvious example. The Minister might hold that we have to incentivise the man at the top, for example, a banker, who may be on €500,000 per year or more. I struggle to see why a banker should get paid ten times or 11 times what a nurse gets paid. Is it because of the length of hours worked or the level of responsibility? I am afraid I see no great difference in that regard. Arguably, the nurse is doing far more of a service than the banker. I do not see how one can justify a differentiation by a factor of ten between what one and the other earns. Perhaps the Minister disagrees with that, but I struggle to see the justification.

Against that background, if I were Minister for Finance, I would hold that we need a tax system which at least reduces the gap in net income between those two groups because it has grown spectacularly. Moreover, it contributes in the macro sense to a growing gap in wealth inequality. It is summed up by some of the biggest billionaires in this country who at this point make money because they have money. Do we not need to do something about that? Is there not something wrong with that? Let us suppose a person has €1 billion. He can add to his personal wealth, probably by 5% per year or perhaps 10%, not because he works longer hours or because he is more educated but simply because he has a great deal of money to start with. Any fair approach to taxation would recognise that there is something wrong with the idea that people get richer simply because they are rich while other people who are working their backs off are struggling to pay the bills. Is that not correct?

I put those points to the Minister. I can guess what the answer will be. Nonetheless I believe these are serious issues which are not being addressed. In fact, I believe they are not even recognised by the Government as issues that need to be addressed. A growing chorus of voices maintains that these gaps between rich and poor in terms of income and wealth have to be addressed for the sake of justice and for the sake of macroeconomic stability as well.

Deputy Michael Noonan: Deputy Boyd Barrett has made many points. I will try to address at least some of them. First, Deputy Boyd Barrett suggested that there are people who are doing rather well, are getting well paid, can pay their way and need no tax relief. That is true, but that was not the way it was in 2011 when we came to power. At the time, many middle-income people could not pay their way. They could not do all those things. It is as a result of Government policy that they can now pay their bills. Society is complicated. It is part of the social compact and the work of the trade union movement to establish the proper wage for a particular job.

My opening position at the start of this debate was that I do not believe one can run a society if everyone gets paid the same regardless of what they do, how long they work or what responsibility they take. I do not believe there is a flat-rate model. Therefore, once we allow for differentiation, we will have differentiation.

Deputy Boyd Barrett has excoriated middle class people on the basis that they do not need any relief. However, middle class people have to pay mortgages and the costs of raising their children out of after-tax income. They are part of what is called the squeezed middle. They find it hard enough to live when they have to pay mortgages and pay for the education of their

children. They pay for everything, in fact. There is no model of society where one size fits all.

I agree with Deputy Boyd Barrett in one sense. One of the aspects of statecraft, if that is what we call what we do, is to seek to achieve a balance to continue with a degree of social cohesion in the country. The Opposition Deputies are strong advocates of soak-the-rich policies. Yet when the Government put a tax on property, they were all shouting and roaring over how it was unfair. They wanted to exempt people who had €2 million pads, €3 million pads and €10 million pads. Deputy Boyd Barrett and his colleagues are unique. They are the only socialists I know of in the world who are against property taxes. I simply do not get it. Of course, I do get it. They could not resist the temptation to have a punt at a populist issue regardless of ideology.

Let us compare who pays what in society.

Deputy Richard Boyd Barrett: I imagine those people would not be too happy with our wealth tax proposals.

Deputy Michael Noonan: Deputy Boyd Barrett is referring to the people above the line. We will see. If he exempted the house, they could well afford to pay the wealth tax.

Deputy Richard Boyd Barrett: It is about the multiple properties they own.

Deputy Michael Noonan: Deputy Boyd Barrett's colleagues want to exempt the land, the stock and the house. What is left? Deputy Boyd Barrett is afraid to put into effect what he believes in. I do not believe in what he is saying in any way, but at least I am honest about it. I do not go chasing around and pretending on these issues.

I will offer some examples. In 2016 it is expected that there will be 2.2 million taxpayer units, including married couples under joint assessment. It is expected that the total yield from income tax and universal social charge will be approximately €18.7 billion. That is the total pot. Of that yield, approximately €6.6 billion will be paid by people with incomes under €70,000 per year. That covers approximately 2 million people. In other words, for €18.7 billion some 2 million people will pay €6.6 billion. The remaining yield, more than €12 billion, will be paid by almost 329,000 taxpayers earning over €70,000. I think that is a fair and reasonable distribution. A small number of people, who would be defined by the Deputy as quite well-off, end up paying two thirds of all income tax. Almost 2 million people pay one third of all income tax. I think that is reasonable. I think it would stand up to any comparative test across the OECD countries.

Deputy Richard Boyd Barrett: I will be brief. I do not want to labour this point because we fundamentally disagree on it. The Minister has not addressed the question I put to him about wealth inequality. Does he see it as a problem? He will be aware that many people - including Thomas Piketty most famously and David McWilliams more recently in this country - have argued that growing wealth inequality is a problem. Obviously, we have been making that point for a long time. It is a problem at the social justice level and it is becoming a macroeconomic problem because too few people control too much money. It is estimated that the personal wealth of the richest man in Ireland has increased from €2 billion in 2006 to €6 billion this year. At a time when the rest of the country has been getting poorer, his personal wealth has trebled. Does the Minister agree that such a level of concentration of wealth, which is echoed around the world, is a problem? I am asking a straight question. I am one of many people who see it as a problem. I suggest that the only way for the Minister to address this problem is to introduce radical redistributive tax measures which are Robin Hood in nature, to put it in simple terms. I

do not say this to encourage a vendetta against middle class people or anything like that. I say it in the context of the recognition that there is a level of inequality that cannot be justified because it is dangerous for society and the economy. Does the Minister have any sympathy with that view, which is a growing one? To my mind, it is obvious.

For the record, we have said that taxes should not be imposed on the family home. As the Minister knows, we have said that wealth taxes, including taxes on property, should apply to all other assets excluding the family home over a certain threshold of wealth. I ask him to believe me when I say that someone who owns multiple properties or who owns a mansion would pay a hell of a lot more under our proposals. We do not agree with a property tax that hits the family home and fails to take account of the income which may be coming into that home. The Minister is very familiar with this argument, so it is a bit disingenuous of him to misrepresent it. In my constituency, there are many cases of people who happen to live in properties that are valuable because property prices are high in their local areas. The Minister knows that many people live in houses with values that bear no relation whatsoever to the incomes coming into those houses. Many pensioners on very small pensions - sometimes the State pension - are being taxed excessively on the basis of the value of their houses. That is the injustice that led us to oppose the Minister's property tax and to propose a different type of wealth tax. I ask the Minister to be honest when he is characterising the position we have put. The Minister could double, treble or quadruple the second home tax and it would be okay with me because it would get at multiple property owners. We would not be talking about someone's primary residence. I emphasise that a tax on somebody's primary residence that does not take account of income is just not fair.

Deputy Michael Noonan: As I said at the time of last month's budget, the growth in the economy means that as politicians, we are now moving into the fortunate position where we have policy choices once again. We have come through a period when there were no policy choices. I agree that the Deputy has the right to put forward policy choices. It is just that I disagree with them. That is the argument. The Deputy began by asking, as a general question, whether I am aware of the work done by various economists in describing the inequalities of income on a worldwide basis. Of course I am aware of that work. However, the data to which he refers are mostly American. There has been a widening of individual wealth in the United States. That is not mirrored by what has been happening in Ireland. That has not happened at all. I am sure the general debate in this regard emerged at the G20 summit in Turkey in recent weeks. It is an issue all over the world. It is not an issue in our country because we have managed things better. Deputy Boyd Barrett moved from income to wealth as if they were the same thing.

Deputy Richard Boyd Barrett: No, I did not.

Deputy Michael Noonan: Income is not wealth. Income tax and USC are imposed on income. Wealth is a different thing. Wealth is stored income which one has not had to spend. The wealth of most people in Ireland, including those on very good incomes, is in the value of their family homes. That is where the wealth is. Most people do not have huge property assets beyond the family home. If I decide not to tax the family home, I am exempting the greatest amount of wealth that is available in society. The Deputy referred to a multi-millionaire who is living in a mansion. Under the Deputy's model, if that mansion is the family home, the multimillionaire will not pay tax on it. He would pay tax under the Deputy's system if he had a second mansion, but I would tax him on the first mansion and I am doing so. That is the way the property tax I am running operates.

I think the Deputy's approach is illogical and ineffective because the tranche of society from which his model would collect money is too small. If he wants to have a look at how it would work, I remind him that it was tried in the 1980s by a Government of which I was a member. When a property tax is applied on a narrow base as suggested by the Deputy, and various exemptions are also applied, the returns are nugatory. I was in the Government that brought in this form of tax. The main reason for its subsequent abolition by Fianna Fáil was that Mr. Haughey did not want a wealth tax. He was wrong on that, but he was right on the issue of the nugatory returns. The administrative costs were nearly as much as what was collected. The Deputy has accused me of being dishonest. I would not accuse him of being dishonest.

Deputy Richard Boyd Barrett: I think "disingenuous" was the word I used.

Deputy Michael Noonan: No, I think the Deputy is trying to have it both ways. He represents a constituency where the value of family homes is the highest in the country. I think he is influenced by constituency considerations that are clouding his clear-cut ideological position. I think that is the case. Our system is already the most efficient in the OECD at improving direct income equality through the system of social transfers. This is measured using the Gini coefficient, of which the Deputy is aware. He will find that independent research has been done on this matter. It must be recognised that for social transfers to take place, we must have high earners to tax. If our income tax system becomes too high by comparison with other countries, fewer of these individuals will choose to live in Ireland and we will therefore lose some of the tax income that is used to pay for social transfers.

I reduced personal taxes in the budget because I believe personal taxes are too high. Regardless of one's level of income, if one is charged more than 50% on the next €1, I think that is too high. People start moving around and wondering whether they can become tax exiles. They also make certain arrangements, lobby for more tax breaks or do some kind of property tax break. We have gone through all that. I would like to have all income, as a starting point, taxed at below 50%. Then I would like to move it down progressively, in the first instance by organising incentives for people on low and middle incomes. I think that is the way to go. I will explain why I am doing this. If we increase taxes on fixed assets and reduce personal taxes, we are not taxing work. We are taxing assets that are very difficult to transfer. Skilled people are very mobile. If they are taxed too highly, they can move. We have a common labour market with the UK now. Many young smart people in Dublin do not see a problem in working in London, if it is a choice. So we need to get our personal tax rates down to ensure that our workforce is incentivised and that we can continue our successful policies of job creation. I remind the committee that this morning's quarterly household survey shows that the level of unemployment has dropped to 8.9%, which is the first time since 2008 that the jobless figure in Ireland began with the figure 8. The other factor is that I want emigrants to come home. As the economy continues to grow at very strong rates, we will experience skills shortages within 18 months in certain sectors of the economy. We need to incentivise well-qualified young people to come back to make their homes and lead their lives in Ireland. That requires reductions in personal taxes. It does not require a one-size-fits-all system in which we take a tenner off everybody in the interests of equality.

Deputy Richard Boyd Barrett: Cheaper accommodation would go a lot further.

Deputy Michael Noonan: That is part of it as well. There are a lot of factors feeding into it. If the Deputy has a good idea on cheaper accommodation I will steal it from him any day of the week. I am one of the least ideological people around.

Deputy Richard Boyd Barrett: I know that.

Deputy Michael McGrath: I will be brief. It has been an interesting debate but it captures the essence of the budgetary debates we have had, not just this year but also in the last few years. Neither I nor my party believe that someone who earns €70,000, €80,000 or €100,000 is necessarily on the pig's back. It is all relative and it depends on people's financial commitments such as mortgages and child care costs. I believe it would be wrong to examine one particular measure on its own. One must look in the round at the Government's approach to budgeting. That is why we advocated a different approach this year. The Minister is correct in that the more tax a person pays, the more he or she will benefit from a tax cut; that is simple maths. However, when one looks at the effect of the last number of budgets and the fact that many of the instruments introduced did not take into account in any way a person's ability to pay the local property tax, the water charges, or PRSI after the abolition of the exemption, then it is my view - and I think it is borne out by the evidence - that the burden was placed most heavily onto those who had quite low levels of income. That is why we advocated for a different approach in budget 2016 to reducing the tax burden. For example, an increase in tax credits would have meant more proportionately to a person on a modest income. Equally, a greater expansion of the USC bands at the lower rates would have benefited everybody but would have proportionally meant more to those who have had to carry the burden of water charges, the local property tax and the abolition of the PRSI exemption. The Government is doing it one way now when it is giving money back, but when it was taking money from people it was done in quite a regressive way. As justification for his approach the Minister has used the significant increase in direct taxation in the earlier years of the crisis. That increase was introduced largely by the late Minister for Finance, Brian Lenihan, in the form of the USC. Those increases were very significant for people's pay packets but they were progressive. However, the measures brought in by the current Minister, Deputy Noonan, prior to the last 12 months were strongly regressive, and now when he gives money back he is again doing it in a way that benefits people on higher incomes. People who are on high incomes are not necessarily very well off in net terms; it depends on individual financial circumstances. This budget was an opportunity to undo some of the damage done by the failure to take into account ability to pay. The Minister said that he looked very carefully to see where he could help somebody on €25,000, because their gain is about 1.1%.

Deputy Michael Noonan: That is a single person.

Deputy Michael McGrath: Yes. In the budget documentation the Government is cleverly presenting the example of a person on a minimum wage, as if the minimum wage increase is being paid for by the Government. It is not; it is being paid for by employers. On this occasion, the way to help a person in the €20,000 to €30,000 bracket could have been to increase tax credits. Those people are still paying a significant amount of tax, albeit a fraction of what somebody on €70,000 or €80,000 is paying. It is a question of taking account of what has happened in the last three or four years. The burden has fallen very heavily on people on low incomes and those at the lower end of the middle income bracket. We have a different point of view and it is one that has been thrashed out this year and last year. It is probably a much broader point than the contents of the Bill.

Deputy Michael Noonan: I do not have a lot of disagreement with Deputy McGrath. When we debated this on budget night I said to Deputy McGrath and Deputy Boyd Barrett that we are fortunate to have choices again. What Deputy McGrath proposes is one way of doing it, and there are certain advantages to it. However, the reason I opted for cuts in USC were two-

fold. Firstly, the rate of personal tax is the big disincentive in terms of job creation and getting emigrants to return. People do not get it when one tricks around with credits and bands. If a person is working in London, Sydney or New York and is thinking of coming home, they will ask what the pay rates are at home. It is the rate of tax that jumps off the page. Unless the rate is changed, the priority - after tax rates being so high and after the tax take being so high - is to incentivise by reducing rates. That is not to say that a future Minister in a future budget would not, quite rightly, move credits and move bands. The international literature on tax reductions will always concentrate on the rate as the big driver and incentive. The literature would also argue that once the 50% rate is passed it can cause big trouble. If a person says "If I work over-time I will get €100, but €55 of that is gone in tax," the incentives are out the gate at that stage. It has to be kept below that rate.

There are other reasons for the credits and the bands. Raising the standard income tax credits would, in general, only have benefitted those earning more than €16,500 per year, as this is the level of income already sheltered from income tax by the personal tax credits. One of the reasons I chose to make changes in the USC which will benefit all those who are earning €12,012 or more is that raising the exemption threshold at which USC becomes chargeable from €12,012 to €13,000 per annum will remove an estimated 40,000 individuals from liability to the charge entirely. The reduction in the three lowest rates of USC will benefit 1.5 million extra people. What the Deputy is proposing does not do what it says on the tin either because those on incomes below €16,500 get no advantage.

Deputy Michael McGrath: We dealt with that proposal separately.

Deputy Michael Noonan: I gave a strong return on USC. I am not saying that Deputy McGrath's approach could not be done and that a budget could not be brought in based on that approach, but I do not think it would represent incentives for the labour force; it would just be a way of giving some money back to people. In this budget I was interested in incentivising people, and it seems to be working. There is a huge third-quarter increase in the number of people at work. There is a huge increase in the number of people going from part-time to full-time work, and it will continue. However, that is not to say that the Deputy will never be right. I do not think he will be right in the next budget, but he might be right in the budget in the middle of the next Parliament, when it may be necessary to adjust credits and bands again.

Question put and agreed to.

NEW SECTION

Deputy Peadar Tóibín: I move amendment No. 3:

In page 8, between lines 23 and 24, to insert the following:

"3. The Minister shall, within one month of the passing of this Act, prepare and lay before Dáil Éireann a report on options available for removing the USC liability for all workers earning less than €19,572 a year".

The purpose of this amendment follows on from the discussion we have had. The Minister indicated the level of income at which people pay and the level of taxes they pay, but VAT and all of the other taxes have not been taken into consideration by the Minister. When we look at the figures, we see that the lowest 10% of earners pay 30.5% of their income in tax while the highest 10% of earners pay 29.5% of their income in tax. The lowest 10% pay marginally more in tax, proportionally, if one takes VAT and all the other taxes into consideration.

Having regard to income, one third of the income of the State is now among the richest 10% of the population. As such, the idea behind the Sinn Féin amendment is to reduce the taxation on low-income earners - those earning less than €19,572. We came to that figure by way of our proposal to raise the minimum wage by €1.50 more than the Government seeks to raise it - that is, to €10.65 per hour. At that level, it would be the threshold with regard to a normal week's work for a worker. We feel the €13,000 figure the Minister has selected falls far too short. It does not redress that imbalance that I outlined at the start of my contribution. We ask the Minister to accept the amendment.

Deputy Michael Noonan: I will read the briefing note which gives the overall position from the Department's perspective. We can then have a dialogue if that is necessary.

It would appear from the wording of the proposed amendment that it is the Deputy's intention that all those earning up to €376 per week, which is just over the earnings of a full-time worker on the new minimum wage of approximately €357 per week, be exempted from the charge for USC entirely. It is unclear whether the Deputy also intends that the amendment covers all income earners with incomes of less than €19,572, rather than just workers. Such a group would include pensioners and people with income from their investments. The Deputy should be aware that the changes proposed in the Finance Bill include a provision to extend the exemption threshold for USC from the current €12,012 to €13,000 per annum. This measure alone will remove an estimated 40,000 low-income earners from liability to the charge entirely. This is in addition to the number of individuals removed from the charge as a result of the two previous extensions of the exemption limit in 2012 and 2015. It is now estimated that more than 700,000 individuals, or 29% of all income earners, will not be liable to USC from next year. In addition to this and as a result in the reduction of the two lower rates of USC and the extension of the ceiling for the second rate of USC from €17,576 to €18,668, all those earning the increased minimum wage with an average working week of 39 hours will remain liable to the two lower rates of USC only, notwithstanding the increase in their gross income. It should also be noted that a new PRSI credit has been introduced in budget 2016 in order to address the PRSI step effect which would otherwise have had a negative impact on full-time minimum-wage workers from January 2016.

To increase the USC exemption threshold to €19,572 would increase the entry point to the charge above the current entry point to income tax of €16,500 per annum for a single employee. To do this would seriously undermine the rationale for the introduction of the USC, which was to broaden the tax base from its previous narrow, unsustainable level. In addition, the USC was intended to ensure that most individuals would make some contribution, however small, to the provision of services and towards assisting in restoring the public finances. The removal of individuals earning up to €19,572 from the charge would effectively reverse the base-broadening which has already been achieved. When the Government considers options for a budgetary tax package, it must take account of all the parts of the package. Therefore, single measures cannot be contemplated in isolation. Taking these factors into account, I am not minded to expend resources on the production of the report requested by the Deputy and therefore I cannot accept the amendment.

As regards indirect taxes, it is more appropriate to look at these as a proportion of people's expenditure, as distinct from their income. In this respect, I am aware of research from other jurisdictions which finds that those with the lowest reported incomes are not those with the lowest spending or those living in the most severe forms of deprivation.

Deputy Peadar Kirby: We have set out the broad parameters of the lack of progressive-

ness in the Government's USC proposals. We sought to address this again given the fact that those on the minimum wage in the State are hardest hit with regard to the challenges of rent, education costs and the different expenditures that people have. There is a necessity to move towards a living wage and we seek to ensure that there is a space available for people to be able to live on that living wage. Taking anyone earning less than €19,000 out of the USC allows for that. I will not push the matter any further.

Amendment put and declared lost.

SECTION 3

Deputy Michael Noonan: I move amendment No. 4:

In page 9, between lines 24 and 25, to insert the following:

“(2) *Subsection (1)** applies for the year of assessment 2016 and each subsequent year of assessment.”.

Amendment agreed to.

Amendment No. 5 not moved.

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

Deputy Peadar Kirby: While amendment No. 5 has been ruled out of order, there is no doubt about the need for a self-employed tax credit and an equalisation of the tax credits a self-employed person experiences with those experienced by an employed person. That is why we took that step in our alternative budget. The problem I have is that after €100,000, a person is earning €1,900 per week and a tax credit can be seen to a certain extent as a subsidy. While the subsidy is logical for those on lower incomes to help them meet the challenges of life, a subsidy to a person earning €1,900 per week does not make sense. We simply believe that the tax credit should be reduced in a tapered fashion after €80,000. That is why we sought to insert that. There is no major pressure on the State to provide these tax credits or reductions to those on very high incomes. When it does, it costs elsewhere. It is a cost to significant sections of society. As I said earlier, it affects the very ability of people to survive in health, welfare and housing. That is our difficulty with the section.

Deputy Michael Noonan: I will just address the tapering suggestion, which is the main difference between what I have done and what the Deputy proposes. The Deputy's proposed amendment would involve the tapering out of the new earned income credit for individuals earning in excess of €80,000, with the credit to be completely extinguished when income reaches €100,000. The purpose of this credit is to narrow the gap in the tax treatment of the self-employed and employees. That being the case, to taper out the credit at higher incomes when no such taper is imposed on the PAYE credit would be to introduce a new disparity between the two cohorts. In this context, the Deputy will be aware that until such time as both the Revenue Commissioners and employers move to a real-time PAYE system and away from the current system of annual returns, the tapering of tax credits for employees would not be operationally possible. The Deputy is also aware that the self-employed become liable to an additional 3% USC surcharge on incomes of over €100,000. To impose a further liability to tax through the extinguishing of the earned income credit at the same income level could therefore be perceived as imposing a further burden on incomes at that level. I therefore do not accept the Deputy's proposal.

Deputy Michael McGrath: The section is one that we welcome. I want to ask the Minister about the overall numbers, because he confirmed in reply to a parliamentary question that 111,600 people would benefit from the change in 2016. The cost is estimated to be €18 million in 2016 and €61 million in a full year. Until recent months, the expected cost of introducing this credit was expected to be far greater and it had been anticipated that 284,600 income tax cases or individuals would benefit from it. I realise the Minister is going one third of the way to the overall credit.

The Minister may have a note to reconcile the substantial difference between the number who will now benefit from the introduction of this earned income tax credit in 2016 and the number originally expected to benefit from it. There is a difference of in the region of 170,000 people, many of whom are living solely on non-PAYE income, for example, savings and so forth. Can the Minister clarify the application of the measure? Is it restricted to people who have certain Case 1 or Case 2 income?

Deputy Michael Noonan: I will read my briefing note for the Deputy. Over the past year I have responded to a number of parliamentary questions regarding the estimated cost of extending the PAYE-type credit to the self-employed. A number of different figures were quoted in these responses, including higher and lower costs relative to the credit introduced in budget 2016, depending on the specific question asked. For example, an estimated cost of €470 million was given to extending the employee PAYE credit in March. This was based on extending the €1,650 credit to all non-PAYE cases, including schedule D, proprietary directors and assisting spouses. This estimate included cases classed as schedule D on the basis that the majority of the taxpayer's gross income is non-PAYE. Some of these cases may have been availing of the PAYE credit. On that basis it was estimated that the credit would be available to approximately 284,600 cases. Furthermore, the March costing was based on estimated income for 2015. Budget measures are costed on the basis of estimated income for 2016. This should also be considered when comparing the two figures.

By contrast, in October a cost of €137 million was given in response to a parliamentary question on the cost of introducing an earned income credit of €1,650 for self-employed people. In this case, I specified in the response that it was assumed the credit would only be extended to cases identified to be in receipt of trading or professional Case 1 or Case 2 income for individuals not in receipt of the PAYE allowance.

The essential point is that if we costed everything and introduced it at one third of the €1,650 credit, it would amount to a credit of €550. While I did not absolutely commit to close the gap completely over a three-year period, the arithmetic would suggest that this is the trajectory. Second, I did not want double credits for anyone. If a person already has part PAYE income and had been getting €1,650, I am not proposing that we give that person an additional credit of a similar amount, ultimately, for that portion of their income from self-employed work.

Deputy Michael McGrath: I want the Minister to clarify a point relating to the reduction of approximately 170,000 in the number of people expected to benefit. Do we know how many of them are already getting the PAYE credit? Is it the case that we are not giving them a second credit by way of the earned income tax credit? How many of these do not have either the PAYE credit or will not now get the earned income tax credit because their income sources are non-schedule D, in other words, they are not on Case 1, Case 2 or Case 3 incomes under schedule D? What is the profile?

Deputy Michael Noonan: Practically all the costing data comes from the Revenue Com-

missioners. The Revenue Commissioners have the database on which they base the costs. Again, I have a note on the matter. In 2013, the latest year for which full data is available, approximately 242,200 individuals had income from a self-employed trade or profession, referred to as Case 1 or Case 2 income, of which approximately 159,400 were also in receipt of PAYE income. It could be expected, therefore, that approximately 82,800 individuals would be entitled to claim an earned income credit on the basis of Irish trading or professional income. This could apply to the lad working in the factory who is running a few dry cattle on the farm or the schoolteacher who has inherited the farm and has income from two sources. In rural Ireland there are many examples along those lines. I am relying on the Revenue Commissioners to provide me with the data. I imagine if there is any error in the data, then as the year goes by the Revenue will bring it to my notice and correct it.

Deputy Michael McGrath: Do we know what level of PAYE income a person must have to get the PAYE credit?

Deputy Michael Noonan: We will double it. We will combine the two. Until a person gets €1,650, which is the maximum, we can apportion it and the Revenue is prepared to apportion it. If a person's income comes from PAYE and non-PAYE sources but neither source is sufficient to get the €1,650 credit, then a proportion of the €550 credit will apply.

Deputy Michael McGrath: What is the position in the case of a person who, before this Finance Bill, had a combination of PAYE and non-PAYE income? What level of PAYE income would that person require to get the €1,650 credit?

Deputy Michael Noonan: €16,500.

Deputy Michael McGrath: If the person earned anything less, he or she would not have got the PAYE credit at all. Is that correct?

Deputy Michael Noonan: A personal tax credit would kick in first and then the PAYE credit would apply.

Question put and agreed to.

SECTION 4

Deputy Michael Noonan: I move amendment No. 6:

In page 9, between lines 28 and 29, to insert the following:

“(2) *Subsection (1)* applies for the year of assessment 2016 and each subsequent year of assessment.”.

Amendment agreed to.

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

Deputy Michael McGrath: This relates to an issue I have raised already with the Minister on the number of people or income tax cases who are benefiting currently from the home carer tax credit. Perhaps I am wrong, but I have the impression that many people who may be entitled to this credit are not claiming it. The onus is on the taxpayer to claim it. I understand approximately 81,000 taxpayers benefited from this credit in 2015 and that the Minister is increasing the credit to €1,000. That is welcome. However, can the Minister clarify the circumstances

in which the Revenue brings this credit to the attention of a taxpayer and the circumstances in which the obligation fully rests with the taxpayer? Perhaps I am wrong, but from looking at the overall profile of income tax cases I suspect many people are entitled to this credit but not claiming it.

Deputy Michael Noonan: The home carer tax credit may be claimed by a married couple or civil partners where one spouse or civil partner, known as the home carer, cares for one or more dependants. Ordinarily, a claim for the credit must be made by the individual, either by claiming it online using the Revenue Commissioners PAYE Anytime service, by completing a claim form or in the person's annual tax return. However, in the case of PAYE taxpayers the Revenue has taken steps for a number of years to automatically allow the credit without the person having to make a claim, wherever possible. For example, the Revenue uses the data it receives from the Department of Social Protection in respect of child benefit together with other data from Revenue records to automatically grant the credit. I am advised that in 2015 the Revenue gave the relief automatically to approximately 81,000 taxpayers on this basis. The Revenue also pre-populates the annual tax returns of self-assessed taxpayers with the home carer tax credit where it was claimed in the previous year.

An increase in the home carer tax credit was announced by me in the budget. This information is included in the Revenue summary budget leaflet published on the Revenue website. The Revenue automatically ascribes the credit to 81,000 taxpayers. The Revenue has put up a leaflet on its website showing the change announced on budget day.

Deputy Michael McGrath: Is it the case that others have actually claimed it and that 81,000 is not the number of people benefiting overall? Is that the number of cases where the revenue has automatically given credit? Can we have the global figure?

Deputy Michael Noonan: From reading the note it appears to me that the figure of 81,000 is the PAYE element that is enjoying this particular credit. On self-employed returns, the note stated that the Revenue pre-populated the tax credits. There is another tranche there. I have not seen an overall figure. If we can get the information we will forward it to the Deputy.

Deputy Michael McGrath: The view of Revenue overall is that the vast majority of taxpayers entitled to it are getting it.

Deputy Michael Noonan: They obviously want to.

Deputy Michael McGrath: I have asked some people about it and there is a lot of confusion. A lot of people do not even look at their tax credit certificates, but people have the impression it is for caring for a disabled person, for example. It is important to highlight at every opportunity that the credit is available for families where children are being cared for because that is not widely understood.

Deputy Michael Noonan: We will ask Revenue if they believe there is any difficulty in communicating that this credit is available.

Question put and agreed to.

Section 5 agreed to.

SECTION 6

Chairman: Amendments Nos. 7 to 12, inclusive, and amendment No. 98 are related.

Amendments Nos. 8 and 9 are principle alternatives. Amendments Nos. 7 to 12, inclusive, and amendment No. 98 will be discussed together.

Deputy Michael Noonan: I move amendment No. 7:

In page 10, to delete lines 6 to 8.

I propose to take amendments No. 7 to 12, inclusive, and amendment No. 98 together as they all relate to section 6 of the Bill. I propose to deal with amendments Nos. 7, 9, 10 and 11 initially. These amendments are essentially technical in nature and their main purpose is to clarify that the exemption provided for under section 6 will only apply to a non-resident non-executive director of a company. Using the term “full-time working director” in the section could have opened up the exemption to part-time executive directors travelling from outside of the State.

I have also taken the opportunity to amend the definition of “travel” to include travel by motorcycle. I am also making it clear that the exemption will apply to expenses incurred on and from 1 January 2016. I commend these amendments to the committee.

Deputy Michael McGrath: Are we on the section?

Chairman: No, we are dealing with the group of amendments

Deputy Michael McGrath: I refer to the distinction between a resident and non-resident non-executive director. Why is such a distinction drawn in the tax treatment of such directors? They have the same responsibilities under the Companies Acts and the same fiduciary duties. They play an equal role in terms of board oversight and so forth. A lot of indigenous and start-up companies here rely on Irish non-executive directors to provide expertise to them.

As I understand it, this section relates to vouched expenses. The question of why vouched expenses would be taxed in the first place is one I also have to put. I ask the Minister to focus primarily on the distinction between the tax treatment of resident and non-resident executive directors in the Bill.

Deputy Michael Noonan: The case for payment of tax-free expenses has been principally made by the foreign direct investment community, its representatives, IDA Ireland and other organisations that are endeavouring to bring in foreign expertise at board level. It is worth noting that, in response to recent consultation on the tax treatment of expenses generally, the majority of submissions focused largely or entirely on this issue.

There are provisions under law, as I understand it, for parent companies to provide directors to subsidiaries in Ireland and frequently they fly in from abroad, largely from the United States. The submissions to me demonstrated that this was an inhibition on foreign direct investment companies and that we should remove the inhibition and, in effect, incentivise the ability of foreign direct investment parent companies to appoint directors to act as board members in Ireland.

Deputy Michael McGrath: I accept that argument, but I do not see why it does not apply to companies in Ireland that rely on Irish non-executive directors to provide expertise and serve on the boards of companies. They incur expenses which are fully vouched, so there is no profit involved. Why would they be treated differently from a tax point of view at a time when we are trying to support Irish companies, through local enterprise offices and various incubator units around the country? A lot of companies find it difficult to get expertise on their boards. I am

struggling to understand why there is different tax treatment.

I can understand the argument being made by, I assume, IDA Ireland and others, from an inward investment point of view, but I hope that Enterprise Ireland and LEOs would make a similar case in respect of Irish companies that rely on Irish expertise serving on their boards in a non-executive capacity where vouched expenses are being paid.

Deputy Michael Noonan: I would have to agree with the Deputy that the introduction of any such concessions immediately prompts calls for others. I would respond to these by noting that work on examining the submissions received is continuing and, should further legislative changes be identified, I will take the appropriate steps to introduce them, as necessary. That work will take account of the principles referred to and the need to review such principles or guidance to ensure consistency of treatment between taxpayers.

It was a particular problem with foreign direct investment companies and I have moved in that respect to incentivise them and ensure those flying in from California or the east coast of America can claim. Very little case has yet been made along the lines the Deputy has outlined. As I said, we are doing a general review of the tax treatment of expenses and it is still open.

Deputy Peadar Tóibín: How much will it cost? How many people will it affect? I am now starting to wonder whether the Minister cycles because he has not included cycling in transportation.

The reason we submitted our amendment was because we feel there is a possibility of abuse of the scheme and there is a necessity to ensure that does not occur. That is why we included an obligation for receipts and expenses to be maintained. Will the Minister accept that amendment? Will he put in place any other mechanisms to prevent abuse?

Deputy Michael Noonan: As expenses which are currently taxable cannot be separately identified from the salary of a non-executive director, it is not possible to provide an estimate of the cost to the Exchequer. It affects a small number of people.

For the further information of the Deputy, section 886 of the Taxes Consolidation Act requires records to be maintained relating to all sums of money expended in the course of carrying on a business and to retain these records for a period of six years. This means that employers are required to maintain records and receipts relating to any payments made by them to their employees. Therefore, it is not necessary to make specific provision for the keeping of records in section 195B. That is the reason I am not accepting the amendment.

Chairman: Does Deputy Boyd Barrett wish to comment on this?

Deputy Richard Boyd Barrett: I am trying to get my head fully around this. On foot of lobbying by foreign direct investment companies, which we can understand to be large multinationals which already make extraordinary profits and pay very low levels of effective tax, we will concede yet another tax break. This follows the SARP tax break. There was also a tax break for these executives to send their children to private schools, and now we have another one. I struggle to find a justification for this because it seems wide open to abuse. It seems that yet again we are subsidising these corporations. How does the Minister respond to this? I do not see why these companies should not just foot the bill and the costs, and make their own arrangements in some way with their employees. The idea that we are giving a tax break to them seems like a hidden subsidy to the companies themselves or to their better paid personnel.

Would the Minister think of capping the amount that could be charged to travel and subsistence expenses so that we do not give people a tax break to use the most expensive forms of transport and the most luxurious and plush hotels and milk the expenses in this way? There is no guard against this in the measure the Minister is introducing.

Deputy Michael Noonan: As we said, it is a governance issue. Men and women from the parent board will serve on the board of the Irish company. It principally applies to travel in the United States. It is important, particularly in the financial services industry, that there is very strong governance. This has inhibited companies, particularly in the US, appointing directors which is required under governance, so we are making a concession to them as an incentive. One can argue it is a good thing or a bad thing, but this is why we are doing it. It is confined to vouched expenses and it does not have the potential for abuse along the lines suggested by the Deputy. It is for board meetings, for which people fly in, have hotel expenses for one night or two and then fly back out. How often does a company meet? It would probably be ten or 11 times a year if one was a full attender.

Deputy Richard Boyd Barrett: What is to stop people just flying in for holidays and handing it in against expenses?

Deputy Michael Noonan: It is for vouched expenses to go to a board meeting.

Deputy Richard Boyd Barrett: I am not convinced.

Amendment agreed to.

Deputy Michael McGrath: I move amendment No. 8:

In page 10, to delete lines 9 and 10 and substitute the following:

“ ‘relevant director’, in relation to a company, means a director who is either resident or not resident in the State and is not a full-time working director;”.

Amendment put and declared lost.

Deputy Michael Noonan: I move amendment No. 9:

In page 10, to delete lines 9 and 10 and substitute the following:

“ ‘relevant director’, in relation to a company, means a director who is not resident in the State and is a non-executive director of that company;”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 10:

In page 10, to delete line 14 and substitute the following:

“ ‘travel’ means travel by car, motorcycle, taxi, bus, rail, boat or aircraft.”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 11:

In page 10, line 17, after “director” to insert “, on and from 1 January 2016,”.

Amendment agreed to.

Deputy Peadar Tóibín: I move amendment No. 12:

In page 10, between lines 21 and 22, to insert the following:

“(4) As regards the reimbursement of actual expenses vouched by receipts, the employer must retain such receipts, together with details of the travel and subsistence. The period of retention of records is 6 years after the end of the tax year to which the records refer.”.

Amendment put and declared lost.

Question, “That section 6, as amended, stand part of the Bill”, put and declared carried.

NEW SECTION

Deputy Michael Noonan: I move amendment No. 13:

In page 10, between lines 21 and 22, to insert the following:

“Exemption in respect of certain expenses of State Examinations Commission examiners

7. The Principal Act is amended by inserting the following section after section 195B:

“Exemption in respect of certain expenses of State Examinations Commission examiners

195C. (1) In this section—

‘civil servant’ has the meaning assigned to it by the Civil Service Regulation Act 1956;

‘employee’ has the same meaning as in section 983;

‘examination purposes’ means:

(a) the development of examination papers or other examination materials;

(b) the marking of such papers or other such materials; or

(c) the carrying out of invigilator duties at an examination;

‘examination’ means any examination standing specified for the time being in Schedule 2 to the Education Act 1998;

‘examination paper’ includes any paper, plan, map, drawing, diagram, pictorial or graphic work or other document and any photograph, film or recording (whether of sound or images or both)—

(a) in which questions are set for answer by candidates as part of an examination or which are related to such questions, or

(b) in which projects or practical exercises are set which candidates are

required to complete as part of an examination or which are related to such projects or exercises;

‘examiner’ means, other than a person employed as an Examinations and Assessment Manager, a person who is an employee of the relevant employer for examination purposes;

‘relevant employer’ means the State Examinations Commission;

‘travel’ means travel by car, motorcycle, taxi, bus or rail.

(2) This section applies to payments made by the relevant employer to or on behalf of an examiner in respect of expenses of travel and subsistence incurred by the examiner, on and from 1 January 2016, for examination purposes.

(3) So much of any payment to which this section applies, as does not exceed the upper of any relevant rate or rates laid down from time to time by the Minister for Public Expenditure and Reform in relation to the payment of expenses of travel and subsistence of a civil servant, shall be exempt from income tax and shall not be reckoned in computing income for the purposes of the Income Tax Acts.”.”.

Following an audit of the 37 categories of contract examiner staff engaged by the State Examinations Commission, SEC, Revenue determined that elements of the travel and subsistence payments are taxable. My colleague, the Minister for Education and Skills, in conjunction with her Department and the SEC, have advised that they consider that there are only two viable options open to deal with this issue. We can either provide remediation by means of a specific provision in the Finance Bill or increase remuneration for affected examiner staff in order to offset the significant loss of income as a result of taxing travel and subsistence payments.

I am advised that the Department of Public Expenditure and Reform is strongly opposed to the possibility of increased remuneration and I tend to agree with its position. This leaves a difficult decision. If we do not wish to increase the public pay bill significantly, we need to consider how we can continue to pay expenses to these people at the same level as they have previously received them. We could simply deduct the tax, which the SEC should have been doing all along, but then, of course, the expenses received into their hands by these staff would decrease considerably. I am advised this could put the SEC in a position where it would be difficult to attract sufficient numbers of such staff in order for the State examinations in 2016 to be concluded successfully. On this basis I consider that, having regard to historical practice, it would seem appropriate to include a measure in the Finance Bill 2015 to exempt certain expenses of SEC examiner staff from taxation.

Bearing in mind the need to ensure this measure operates exactly as intended, and with a very narrow focus, there have been ongoing discussions involving the Office of the Attorney General, the Department of Finance, Revenue, the Department of Education and Skills and the SEC. For this reason, the measure was not fully ready for inclusion in the Finance Bill as initiated and, therefore, I am introducing it on Committee Stage. I commend the amendment to the committee.

Deputy Peadar Tóibín: What is the expected cost to the Exchequer of this measure?

Deputy Michael Noonan: It is €4 million. It is simply that, historically, expenses incurred by examination staff for the State examinations were exempt from tax. A ruling made by Rev-

enue last year brought them into the tax net. It means the people involved will either get extra expenses through the education Vote or they will get them this way. After consideration, it was decided it is better to do it this way than to open up another round of increases through the Department of Public Expenditure and Reform and the Department of Education and Skills.

Deputy Michael McGrath: As I understand it, the Finance Bill is explicitly making these payments exempt from tax. Traditionally, they were not taxed.

Deputy Michael Noonan: It is drafted very narrowly.

Deputy Michael McGrath: The question which arises-----

Deputy Michael Noonan: They were never taxed until the ruling. The Department of Education and Skills paid the tax last year because the ruling was made after payments had been made. The Department of Education and Skills approached me and suggested I speak to the Minister, Deputy Howlin, about giving it extra money because it could not run the State examinations if there were a reduction in this element of the payment.

Deputy Michael McGrath: The question has to be put to Revenue by the Minister about the knock-on effects of this and the consistency of treatment of other payments to other persons. The Revenue Commissioners made a ruling for a reason following their audit. That ruling is now being set aside, as such, by legislation because we are making the payments explicitly exempt from tax. Does the ruling of the Revenue Commissioners have wider implications for payments to other persons under the State umbrella?

Deputy Michael Noonan: I do not think so. The general issue is expenses from one's home to one's place of work. It was the practice in the supervision of State examinations that no supervisor could be in a neighbourhood school. Under the terms of their contract, they had to be quite a distance from home. Usually it would be 30 to 40 miles and sometimes it would be much farther. I think because of that condition in their terms of employment, it would not have knock-on effects that I can identify.

Amendment agreed to.

SECTION 7

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

Deputy Richard Boyd Barrett: This section deals with health insurance. Are the provisions of the section related to the lifetime community rating for health insurance?

Deputy Michael Noonan: Section 7 amends section 470 of the Taxes Consolidation Act 1997 which provides relief for insurance against the expenses of illness. This amendment will have the effect of changing the definition of a child in the section to reflect the changes that were made to section 7(5) of the Health Insurance Act 1994 by the Health Insurance (Amendment) Act 2014. The amendment to the Health Insurance Act was made to allow an opportunity for all persons aged between 21 and 25 to avail of reduced premium rates on a sliding scale below the full adult price. It also removed a requirement for a person aged between 18 and 23 years to be in full time education to be eligible for a child rate of premium where offered by the insurer.

The purpose of the section is to amend the definition of child for the purposes of the reduced €500 tax relief ceiling to refer to an individual under the age of 21 years availing of a child rate of premium. The full ceiling of €1,000 will apply for all adults aged 21 and older, regardless of

whether they avail of a reduced premium.

The amendment also stipulates that this provision is effective in respect of policies entered into or renewed on or after 1 May 2015.

Deputy Richard Boyd Barrett: Why is the Minister incentivising young people to take out private health insurance? Is that not a case of the State acting on behalf of private health insurance companies?

Deputy Michael Noonan: That is not quite it. Changes were made in a previous Finance Bill which removed the tax break below a certain threshold and in doing that it caught children under 18 years. Now there are policies on offer. Effectively we want the child exemption to apply to children, as defined now, between 18 and 21 years. It is a concession to bring tax practice into line with the types of insurance policies that are now being offered. There is not a large amount of money involved. It is negligible.

Deputy Peadar Tóibín: Was the Minister lobbied by the health insurance industry to change it?

Deputy Michael Noonan: The Minister for Health contacted me on this issue.

Deputy Peadar Tóibín: The Minister for Health was lobbied?

Deputy Michael Noonan: The Commission on Taxation in its 2009 report recommended the retention of medical insurance relief but that it should be limited. The introduction of an upper ceiling on the amount of medical insurance premiums that qualify for tax relief achieves this recommendation. That is what we did in a previous Finance Bill.

This Government also supports citizens in retaining access to medical insurance throughout their lives through community rating of insurance premiums. This is effectively a minor adjustment to bring tax law into line with medical insurance practice in order that a child between 18 and 21 years gets a more generous benefit and is not cut off from the benefit at 18 years. The cost to the Exchequer, as my officials have said, is negligible.

Question put and agreed to.

SECTION 8

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

Deputy Peadar Tóibín: Is there any information in the Department with regard to increases of VAT and relevant contracts tax, RCT, registrations on the back of the home renovations incentive, HRI, scheme? This scheme in part was supposed to seek a regularisation of the delivery of this type of work and stop the black market from operating. It would be interesting to measure the impact in respect of that particular change. Has the Minister ever considered, given that rural Ireland is under fierce pressure with the depopulation of certain sectors of it, an enhanced version of this provision to incentivise people to do up existing properties in rural areas to live in them?

Deputy Michael Noonan: The home renovation incentive scheme has been very successful to date, with works on just over 27,000 homes notified to the Revenue HRI online system as of 30 September 2015. This represents more than €588 million worth of works involving 6,000 contractors. That it is online and the contractor has to register as tax compliant means

everything that happens is in the white economy rather than the black economy. I do not have a figure for the number of small contractors who may have moved their status as a result of this provision but the 6,000 contractors that have benefited from this in altering or extending 27,000 homes are all legitimate and are registered. I doubt if I could get that figure as somebody would have to make an admission for that statistic to be available.

Deputy Peadar Tóibín: I appreciate that it is impossible to get who has changed, but the Minister would see if there has been a net change in the number of RCT and VAT registrations during that period. The total number would not necessarily be moving from the black economy but it would give us an understanding if there was a particular bump outside the trend.

Deputy Michael Noonan: I think much of what has happened is that people who were experienced in building went back to work as a result of this scheme, such as, for instance, a guy and his brother or his former employee who might be a bricklayer or a carpenter. They would register as a contractor. It would not be movement from the black economy to the legitimate economy. Some of it was movement from unemployment into gainful employment. I can assure members that because these contractors must register with Revenue, the whole 6,000 are in the legitimate economy. I will see if Revenue has any more data on that.

Deputy Peadar Tóibín: What about the possibility of making enhanced provision for rural areas?

Deputy Michael Noonan: My officials tell me that Revenue is engaged in an analysis of the RCT payment patterns to identify the compliance issue. The number of registrations is up.

Deputy Peadar Tóibín: Has the Minister consider the question of rural areas?

Deputy Michael Noonan: I have been looking at this but have not done anything in the Finance Bill. Anyone with experience of rural Ireland knows that where the shops on the main street are no longer trading, the living accommodation over the shop is not in use either. It is very difficult to come up with a scheme that would incentivise it. There was a previous scheme - the living over the shop scheme - but that required a viable business at ground level to avail of a tax break. That would not work in this instance. Quite frequently, the people who would avail of this would not have sufficient taxable income to obtain the benefit. It would be worth considering but I think a grant system that would apply to those who pay low rates of tax and non-taxpayers, as well as to people who pay reasonably high rates of tax, who could get maximum benefit from the incentive might be more efficient. As we saw from the upper Shannon development scheme for the building of houses, activity does not happen unless there is an economic base for it. Tax breaks alone will not encourage people to live in an area where there is no work or sustainable lifestyle for them.

It is a much broader issue than simply putting in place tax breaks or living over the shop incentives to develop a village or a main street. I would like to hear the views of Deputies on it. I have not come up with a solution despite the fact that I have discussed the matter with many people.

Deputy Peadar Tóibín: The Minister is correct that a simple tax break will not be the silver bullet but changes happen because of marginal changes around the edges. A suite of changes leads to a more viable existence in rural areas. Something like this could potentially help some people to make the decision to renovate and, therefore, remain in rural Ireland.

Deputy Michael Noonan: It is a major issue. I am not proposing anything in this Bill.

In the future, if I am still in a position to do something, it is an area of very significant need in respect of which action is required. There is a need for an economic justification. I think the sequence for rural Ireland is to build the economy on agriculture, food, tourism, construction and the professions which provide services to the rural community. Then if one needs to house people in the towns, that will follow. There are planning implications as well because it is not an exaggeration to say that most people in gainful employment in rural Ireland live in homes that are situated on the roads around a village rather than in that village. The houses in the village, apart from the legacy of a more viable trading community, tend to be social houses. It is a big problem. I could take members to villages where there is not much happening on the main street. My general point is that there needs to be a more integrated solution rather than simply giving tax breaks.

Question put and agreed to.

Section 9 agreed to.

NEW SECTION

Chairman: Amendment No. 14 in the name of the Minister proposes to insert a new section. Acceptance of this amendment involves the deletion of section 10.

Deputy Michael Noonan: I move amendment No. 14:

In page 11, between lines 25 and 26, to insert the following:

“10. (1) The Principal Act is amended by inserting the following after section 112A:

“112B. (1) In this section—

‘benefit’ means a tangible asset other than cash;

‘qualifying incentive’ means either a voucher or a benefit that is given to an employee by his or her employer in a year of assessment where the following conditions are satisfied:

(a) the voucher or the benefit does not form part of a salary sacrifice arrangement;

(b) the voucher can only be used to purchase goods or services and cannot be redeemed, in full or in part, for cash;

(c) the voucher or the benefit cannot exceed €500 in value;

(d) not more than one voucher or benefit can be given to that employee in any year of assessment;

‘salary sacrifice arrangement’ means any arrangement under which an employee forgoes the right to receive any part of his or her remuneration due under his or her terms or contract of employment and in return his or her employer agrees to provide him or her with a qualifying incentive.

(2) A qualifying incentive shall be exempt from income tax and shall not be reckoned in computing income for the purposes of the Income Tax Acts.”.

(2) *Subsection (1)* comes into operation on 22 October 2015.”.

This amendment, if accepted, will result in the deletion of the existing section 10 from the Bill, as published, and its replacement with this text. The purpose of the amendment is twofold: to extend the exemption to include a small benefit in addition to a voucher; and to provide that the exemption applies to benefits and vouchers gifted to employees on or after 22 October 2015. The new section provides a legislative basis for a concession that is currently operated by the Revenue Commissioners. This will allow an exemption from income tax, PRSI and USC to an individual where an employer gives that employee a small benefit or voucher in a year of assessment. There are some restrictions, namely: the benefit or voucher cannot exceed €500 in value; it cannot be exchanged in part or in full for cash; it cannot be part of any salary sacrifice arrangement between the employee and employer; and only one benefit or voucher may be given in any one year. By changing the commencement provision, it will allow Christmas bonuses that meet the conditions to qualify for tax exemption this year. It is the practice of some employers to give some benefit, Christmas bonus or voucher to employees at this time. Up to now, they could give a voucher to the value of €250 and this was not taxable. The amount will now be increased to €500 and it will not be subject to income tax.

The principal reason for the new draft is that after the Bill was published, it was pointed out to me that it would only come into effect on 1 January and would, therefore, be of no benefit to people this Christmas. I am bringing the effective date forward to 22 October - the date on which the Bill was published - in order that employers will be free to increase the value of the bonuses or vouchers they give to employees. In a way, this mirrors what is being done by the Department of Social Protection in terms of paying increased Christmas bonuses to persons on welfare payments. The amendment will give rise to a small benefit for people at work.

Amendment agreed to.

Section 10 deleted.

Section 11 agreed to.

SECTION 12

Deputy Michael Noonan: I move amendment No. 15:

In page 12, to delete line 21 and substitute the following:

“(2) *Subsection (1)* applies for the year of assessment 2016 and each subsequent year of assessment.”.

This section is due to commence on 1 January 2016. The Revenue Commissioners advised me that, for the avoidance of doubt, the commencement would be better stated as “for the year of assessment 2016” rather than 1 January. This amendment effectively makes that change.

Amendment agreed to.

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

Deputy Michael McGrath: My question on the section may fall outside the remit of the Department of Finance. Will increasing the threshold from €3,174 to €5,000 have an impact in respect of the application of PRSI to deposit interest? DIRT is currently charged at 41% and an additional 4% in PRSI is charged on non-PAYE income if it exceeds €3,174. Will the DIRT

threshold also be increased to €5,000? I accept that this is probably not relevant to the Bill before us but they are linked.

Deputy Michael Noonan: Self-assessed taxpayers have an additional annual return filing obligation compared to those who pay their taxes through the PAYE system. Individuals who are predominantly PAYE taxpayers but who earn a small amount of other non-PAYE income do not at present automatically move into the self-employed system, provided their net other income does not exceed €3,174. It is taken into account in determining the tax credits and standard rate cut off point for the year or it is fully charged to DIRT tax. The Revenue Commissioners may also take into account the individual's gross income from non-PAYE sources in deciding how they should be treated. Currently, Revenue set the threshold at gross non-PAYE income of €50,000, above which a person comes within the self-assessment system. The kinds of income in questions are rents, deposit income, dividend income and so on.

Up until 2014, this limit of €3,174 was set on an administrative basis by the Revenue Commissioners, but with the enactment of legislation at that time extending PRSI to unearned income by self-assessed individuals, it was necessary to put the limit on a statutory footing. PAYE taxpayers remain exempt from PRSI on non-PAYE income up to the €3,174 limit. I am proposing in section 12 to increase the €3,174 figure to €5,000 from 2016 onwards. I should emphasise that the income concerned is and always has been liable to tax. This measure will have no effect on tax yield because the liability of the income to tax remains unchanged. It has been estimated that this change will cost approximately €3 million in PRSI foregone. Revenue intends to reduce the current gross unearned income figure from €50,000 to €30,000 at the same time, however, and this is expected to have a mitigating effect on that overall cost. There are benefits to the taxpayer and to Revenue from this proposed change. It will be possible to remove the annual return burden from a larger number of taxpayers with low levels of non-PAYE income. It will also be easier for Revenue to collect the tax on that income.

Deputy Michael McGrath: That did not answer my question. I might table a question to the Tánaiste, as I think my query relates specifically to the Department of Social Protection.

Deputy Michael Noonan: I thank the Deputy.

Question put and agreed to.

SECTION 13

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

Deputy Peadar Kirby: This section of the Bill seeks to remove the tax relief on income from the management of woodlands from the list of reliefs that are subject to restrictions. Certain forms of income that relate to forestry, such as grants and premiums, are exempt from tax at present, but there are restrictions in place which seek to limit the ability of people on high incomes and high earners to avail of such tax breaks. One of the problems with the tax system in this country is that it is peppered with tax reliefs. I suggest that tax reliefs distort the progressive nature of the income tax base. Obviously, the purpose of a tax relief is to incentivise a certain type of behaviour which is considered to be in the common good. When tax reliefs are made available to extremely high earners, they have the effect of reducing significantly the tax liability of those people. In light of all the reasons we have previously discussed - many people are dying on the streets while others are struggling to get our crumbling health system to deliver health services to them - we would absolutely oppose the idea that a tax relief should

be extended to high earners. At a time when many people, including hundreds of thousands of children, are living in extreme poverty, it is shocking to propose that the restrictions currently limiting the ability of high earners to avail of this tax relief should be withdrawn.

Deputy Michael Noonan: The Deputy has just asked for tax relief for rural towns. The management of our woodlands is a rural activity. I do not like to take things out of the high income earners' liabilities, but there is a justification for this proposal. Most of the constituency represented by Deputy Tóibín is rural. It is hard for one to harvest forestry if one has to go back in for a second or third time. The tax restriction on this income has made it impossible for owners, especially farmers, to bring in the heavy machinery that is necessary to harvest in one go the trees of the same age that mature at the same time. When they have tried to do so, they have run into circumstances in which, after they have grown trees for 25 or 30 years, this income would become liable for the high earners' tax relief in a single year. That is the purpose of this change. If the Deputy thinks about it, he will appreciate that it is helpful to the economy of rural Ireland because it will encourage the further development of forestry, especially on those lands that are not really viable for much other farming activity.

Deputy Peadar Tóibín: I mentioned that tax reliefs are a distortion of the income base, but I also said that there are circumstances in which they can be used for the common good. There is no doubt that this proposal would have a marginal effect on the rural economy. I would make the point that having roads on which people can drive would also have an effect on the rural economy. There are roads in north-west Meath that are completely impassable for at least six months of the year. People have to make diversions of six miles or more to drive their children to school or to get to church or the shops. I know people in rural parts of north-west Meath who do not invite their customers to the location of their business because they know that if their customers make the journey once they will not do so again. They offer instead to meet their customers in the town of Virginia, in south-west Cavan. The point I am making to the Minister is that there is a hierarchy of need. I suggest that the level of need and pressure is most severe among a swathe of citizens in this country. I refer not only to those affected by health difficulties and homelessness, but also to small businesspeople who are looking for roads to be tar-macked so that their businesses can function. I suggest that super-high earners are at the bottom of that hierarchy of need. They need no new tax breaks in order to be able to meet the needs of their lives. The income levels they already have mean they are able to meet all the human needs they experience multiple times over. If we are to use tax reliefs, we should not target them on the basis of the needs of extremely high earners. Some of the towns throughout the country that are dying on their feet because so few people are living in them have been mentioned. In many of those towns, Main Street is Shutter Street because so many shops have closed. We need to target the funds in that direction rather than putting them into the deep pockets of high earners.

Deputy Michael Noonan: I do not disagree with the Deputy's analysis of the high earner restriction. As a general rule, I am opposed to changes in the application of that restriction because it has been effective. It continues to be an effective measure, and I believe this is due in large part to the fact that it applies across such a wide range of reliefs. In this instance, however, I am satisfied that the cashflow cost to the Exchequer can be justified when it is viewed against the overall benefits to the sector itself and to the environment generally. The high earner restriction is intended to apply to high earners and not to those who are caught simply because of the way their incomes are earned. The most recent report on the operation of the restriction, which related to the 2013 tax year, stated that seven people in receipt of this exempt income were subject to the high earner restriction. On that basis, I do not expect this change to have any appreciable impact on the functioning of the high earner restriction. The people who have

expertise in this area have advised me that at present the restriction can kick in when areas of forestry that are as small as 8 hectares are harvested. At present, people who have 25 hectares of forest that matures at the same time are choosing to go in three times, three years in a row, in order to avoid the implications of the high earner restriction. This reduces the viability of what they are doing and causes roads similar to the inaccessible ones the Deputy mentioned in his constituency to get ploughed up by heavy trucks in three consecutive years. The commercial way of doing this work would be to provide for one clean felling. Ultimately, it is not as if people get money from forestry every year. The Deputy knows the way it works. Those involved get some incentive grants when they plant their trees and some more incentive grants when those trees reach a particular age, but the main income comes once, when those trees are felled. It is not as if the people in question are going to get the same income the following year. They get caught in the high earner restriction in one particular year. To avoid this, they tend to spread the felling of the trees over a number of years. Such an approach is less viable and is not environmentally friendly. I think the arguments I have set out in favour of this measure are good ones.

Deputy Peadar Tóibín: The Minister has said that there will be no appreciable change in income. Tax changes are designed to change behaviour. I imagine the Government will use this measure as part of its efforts to seek more investment in forestry in this State. If that is to happen, and if the seven individuals mentioned by the Minister are to participate in this activity, there has to be a net income benefit to them. That benefit will come out of investments elsewhere in the State.

Deputy Michael Noonan: One could make that argument in respect of anything we do.

Deputy Richard Boyd Barrett: I am in favour of greater investment in forestry. We need to do more than we are at the moment. The largest block to our having the levels of afforestation that we require is the fact that the State forestry company has effectively been ruled out of engaging in new planting, which is ridiculous. I see the Minister's logic in this case. In the harvesting year, one's income is high. A high income in a harvest year would not necessarily reflect one's income every year. Should there not be a ceiling or the like whereby we could distinguish between someone who had large amounts of forestry and was making mega-profits and a small or medium-sized farmer who had only one year in which his or her income went over the line? I understand why the Minister would not want to penalise the latter, but should he not distinguish between such people and those who have much larger farms or ranches?

Deputy Michael Noonan: The economic contribution of forestry to the State is important, particularly in rural areas. We have not seen many forests in the middle of cities yet. The total employment of more than-----

Deputy Richard Boyd Barrett: We should have them in cities. Seriously - we need it.

Deputy Michael Noonan: There is total employment of 10,000 people and the sector makes a direct contribution of more than €1 billion to the economy, with its total economic value estimated at €2.3 billion. There are significant social and tourism-related benefits. Forestry has an influence on climate change and an important role to play in helping Ireland to achieve its international emissions reduction targets. It is expected that the cost of implementing this proposal will be low, at several hundred thousand euro instead of €1 million.

The industry reports that harvests are being split in order to ensure that people's incomes do not exceed the exemption limit. This is inefficient and influences behaviour in an unintended

way while yielding no extra revenue to the State. The current tax treatment has a disproportionate disincentive effect that is working counter to all other Government efforts to promote forestry, with its economic, environmental and social benefits. Addressing this problem will send a strong and coherent policy signal of Government support for forestry.

The restriction will still apply to passive investors. It is only active foresters who will benefit from the change.

Question put and agreed to.

NEW SECTIONS

Deputy Peadar Tóibín: I move amendment No. 16:

In page 12, between lines 27 and 28, to insert the following:

“14. The Minister shall, within one month of the passing of this Act, prepare and lay before Dáil Éireann a report on options on introducing a third rate of tax payable at 47 per cent on income over €100,000.”.

This amendment fits into the general thrust of Sinn Féin’s amendments, in that we seek a more progressive tax incidence. Some of Revenue’s recent figures about the uneven distribution of income in the State were startling. According to Revenue, the total income of those liable to income tax was €77 billion in 2011. Revenue projects that this figure will increase to €98 billion in 2016. The analysis gives a breakdown of where that €21 billion increase will find a home. Some €12 billion, more than 50% of that new income, will go to the top 10% of earners, while €14 billion, more than 66%, will go to the top 14% of earners. We are seeing a society develop in which the new income generated therein will lean heavily towards a small section of that society.

Income gaps have yawned in recent years. We are not referring to the normal rich and poor in society any more, or to what happened in the 1970s and 1980s in that regard. Rather, the incomes of the top 20% have increased significantly. The Minister mentioned that the top 20% of earners were paying two thirds of all income tax, but the top 10% earn 33% of all income. It might feel like the top earners are being taxed sizably, but they are consuming a sizable portion of the income as well.

The question is how to have an income tax rate that allows people to work harder and take home more money while contributing more. It puts a brake on the growth of the income chasm between rich and poor. How can this be done in a way that does not penalise people who are even on middle incomes? We suggest that, on every €1 over €100,000, 7 cent extra will go into the State’s coffers. This would have the effect of creating a somewhat more equal society, putting a brake on the growing disparity in incomes and bringing hundreds of millions of euro into the State’s coffers to address the life-and-death issues being experienced by those in the lowest third of the population’s earners.

Deputy Michael Noonan: I assume that Deputy Doherty was referring to the introduction of a third rate of income tax. Based on Deputy Tóibín’s contribution, the proposal seems to be one of a third rate at 47% on incomes in excess of €100,000.

A fair, efficient and competitive income tax system is essential for economic growth and job creation. I have long said that the burden of the income tax system is too high and is acting as a disincentive for work and investment. The USC measures in this Bill are a further step, follow-

ing the income tax and USC measures in last year's Act, to reduce progressively the marginal tax rate on low and middle-income earners in a manner that maintains the highly progressive nature of the Irish tax system.

As the Deputy is aware, there is a commitment in the programme for Government not to increase the top marginal tax rates. A third rate of tax at 47% would increase the top rate by 7% and have the effect of increasing the top marginal rates of tax to 59% for employees and 62% for the self-employed. Furthermore, and as I stated in my budget speech, it is my intention that, if we are returned to government and as resources become available, we will progressively reduce the marginal rate to no more than 50% for all workers to make Ireland more attractive for mobile foreign investment and skills, including those of our returning emigrants.

It is important to point out the significance of marginal tax rates, as they influence individual decisions to work more or, indeed, work at all. The OECD working paper on tax and economic growth talks about "the possibility that high top marginal rates will increase the average tax rates paid by high-skilled and high-income earners so much that they will migrate to countries with lower rates resulting in a brain drain which may lower innovative activity and productivity". Higher marginal tax rates for earners may also incentivise a greater level of tax evasion and contribute to the development of a shadow economy. Therefore, apart from the detrimental effect I believe that such high marginal rates of tax would have on growth of the economy this kind of measure would run contrary to the commitment in the programme for Government. Although the Deputy only proposes the drafting of a report on the actions for introducing an additional marginal rate of tax, to produce such a report would introduce an element of uncertainty as to the direction of the Government's income tax policy and, as such, could be damaging to the promotion of foreign direct investment and job creation. I am not minded to expend resources on the production of the report requested by the Deputy for the reason given above and, therefore, I cannot accept the amendment.

I am well aware of the fact, and I sympathise with it somewhat, that Deputy Doherty and other Deputies are inhibited from drafting amendments that would impose a tax charge on the group. His way around it is to ask the Department to commission a report into something which gives it the same effect. I am not laying much weight on my arguments about producing a report. I can see why he is doing it. It is for technical reasons. That is fair enough, he gets the issue debated. If he were allowed to propose an amendment he could propose a third rate of tax at 47% on all income above €100,000.

Deputy Peadar Tóibín: It always strikes me when we have these types of debates with the Government, the Government will say that if it were to introduce a higher marginal rate of tax people could possibly leave. One third of a million people left in the past six years as a direct result of the policies delivered. One in six Irish people live abroad; one in four is between the ages of 20 and 30. Even though there was some positive news with regard to job figures today, that cohort is shrinking still. It is not a case that people leaving is a block on policy development, people are leaving as a result of the policies that have been implemented.

Second, the level of capital investment in recent years has collapsed in the State. Even in the spring statement the Government seeks to introduce a further reduction up to 2020 in Government investment to much lower than the European average. It is well known that a level of investment down from 1.8% to 1.5% is not enough to maintain the capital stock in the State. Infrastructure such as roads, broadband and all the competitive advantages one would seek in a healthy economy to create jobs will not be maintained and competitive advantages will be lost. Therefore, the argument is that this is a tax on jobs and would prevent jobs being created in the

future. The flipside is the truth because if the Government has the tax take it can invest in the capital infrastructures in order to have a competitive advantage in the future. Third, the Netherlands has a higher marginal rate of tax than Ireland. The Netherlands is the receiver of the most foreign direct investment in Europe, so there is not necessarily a correlation between marginal tax rates and foreign direct investment. It would have higher thresholds for that margin to be ascertained but that correlation does not exist. The arguments do not stack with regard to these types of taxes and their effects on job creation, investment and society. That is why I ask the Minister to reappraise his position.

Deputy Michael Noonan: Certainly we can all identify with very high levels of emigration that took place since the crisis struck in 2008. Many people were driven out of the country. In some years the best and the brightest left. The reason they left was that the policies that were pursued by the Administration leading up to those years proved to be a disaster. That is a matter of fact. We will not get them back by producing more adverse policies but will drive more of them out. The Deputy's proposal for a marginal tax rate for the self-employed of 62% and for PAYE people of 59% would drive more people out. The OECD has done research on this issue. I have quoted the part which states that too high marginal tax rates will lead to migration. There is a clear-cut difference between the position of the Government and the position of Sinn Féin on these issues. Sinn Féin is a high tax party. It wants high tax and high expenditure. My argument is that is the wrong economic model and we have experience of that in the past. It would damage the economy rather than support it. There is a general principle in economics and in taxation that if tax is raised on something the tendency is to get less of it and if tax is reduced on something the tendency is to get more of it. The tax on work in this country is personal taxation. If personal taxes are increased on work, there will be less employment and fewer jobs. If personal taxation is reduced, as the Government is doing, we have proved that we will get more. We can be criticised for many things but our success in job creation in such bad circumstances has been very good.

Let us contrast the two positions. We imposed a property tax, I think Fianna Fáil advocated it at one stage. We put a charge on scarce resources such as water because we think people should have a water charge which restricts usage in effect. If we have a scarce resource there should be a charge on it so that one does not let thousands of gallons of water flow down the drain. The approach of the Sinn Féin Party is different. Its approach is not to have a property tax, a tax on fixed assets, which cannot be moved abroad, or a tax on scarce resources, such as water, but allow it to be wasted, and at the same time it wants to put 7% on to the marginal rates of personal taxes. These are all free choices.

As I said to Deputy Michael McGrath earlier we are in a situation with a growing economy that there are choices. It is no longer the case that everybody has to follow the troika mandate. My argument with Deputy Tóibín and the Sinn Féin approach is that they are bad choices and would damage the economy, stop the growth that is now driving forward and reduce the number of jobs that are being created, if not eliminate them completely. That is where the alternative positions are and I presume we want to fight an election on that issue. I am absolutely convinced that Sinn Féin policies do not pass the economic literacy test. There is evidence everywhere that the kind of policies it is proposing are incoherent because it wants to exempt property and water from charges yet it wants to bang another 7% on top of the personal taxes. I know the Deputy will argue it only applies to the very rich and that it will only apply to those earning more than €100,000. I have seen several times, during my 34 years in the House, that policies were introduced with a floor or a ceiling and they drift on. The Government that has the first economic difficulty and cannot balance its budget because that will be the rule from

two years onwards, one will find that the €100,000 ceiling will be reduced to €80,000 and to €70,000 and then down to €60,000. The Sinn Féin proposal for a 59% marginal tax rate and its 62% marginal tax rate for the self-employed will very quickly apply at low middle incomes and it will gutter, if that is a correct English word, the economy and the prospects of extra jobs being created.

Deputy Peadar Tóibín: I am glad the Minister has batteries in his crystal ball and can see into the future so well.

Deputy Michael Noonan: That is what policy-making is about. If one cannot see into the future-----

Deputy Peadar Tóibín: The Minister has developed a straw man argument. He is arguing against something we are not even proposing. That shows maybe it is easier to do that than to argue our proposals. Not to get back into the property tax, but there was a rupture between people's ability to pay tax and the value of their homes with the crash. That rupture between the value of a home and a person's income and ability to pay mortgages and so on made it illogical to impose a property tax. In fact the Government was taxing their debt. Sinn Féin's view on these issues is that we want a European model economy. One of the great lies in political discourse is that we can have a European public service delivery on a US tax system. That is what the Minister is proposing. The evidence is that 7,700 people have been on trolleys at Drogheda and Navan hospitals since the start of January. That is an indication of the level of public provision crash we are experiencing. It is as if the whole town of Trim - men, women and children - was forced onto trolleys in the hospitals serving that locality. The point I am making is that we cannot have both the US-Fine Gael tax system and the European provision. Instead, we have the public service collapse that is being seen at the moment.

I will conclude by responding to what the Minister said about taxation behaviour. He will be familiar with the concept of price elasticity. There is not necessarily a linear relationship between tax or price and behaviour. If one asks people whether they would be happy to pay a little more tax in order to have a health service that does not involve 100 year old grandmothers having to spend five days on trolleys or children having to take painkillers for six months while they wait for dentists to look after their teeth, most of them will say they are prepared to pay an extra 7 cent if that is necessary and if they can afford it. All this amendment is doing is asking people with big pockets to contribute 7 cent more. It is no more and no less than that.

Deputy Michael Noonan: The Deputy is using a method of debating that is often employed. He is arguing from the particular to the general by using particular lurid arguments that will excite sympathy from his audience, before applying those arguments as if they were general. However, they are not general. The health service, the education service and other desirable services are short of resources because the economy was destroyed. Until very recently, the economy was no longer generating the resources needed to adequately fund such services. The way to have proper health and education services and to expand all the services that we consider necessary is to make sure the economy continues to grow and then to use the resources of that growing economy to fund the necessary services. If the necessary services are funded first, while putting the fiscal burden back on the economy, one will repeat the cycle and the economy will decline again. It might even collapse again in such circumstances. That is the problem with the Deputy's economic analysis. It is not as if anyone disagrees with him that we should do our best to make sure no elderly people are on trolleys and to look after children who are particularly vulnerable.

Deputy Peadar Tóibín: People disagree with my analysis of how that should be paid for.

Deputy Michael Noonan: The argument is that the Deputy's way of doing things has the potential to make things worse, regardless of how well-meaning he is. The way to make things better is the way we have been doing it. If we can get the economy growing at very strong rates, the economy will throw up resources that we can use not only to provide better services but also to reduce tax and balance the budget. In the last budget, allocations were made to those three areas or methods of expenditure. When we balance the budget, there will be just two areas to focus on - reducing tax and providing services. We will see what the balance is then. I fundamentally disagree with the policy that has been presented by Sinn Féin because I do not think it passes the economic literacy test. I am not saying that in an offensive way. I am suggesting that there are loads of internal contradictions to it. Any fair analysis of Sinn Féin's proposals will find that on more than one occasion, one bit collides with another bit. Such an approach will not achieve economic growth. By contrast, there is a coherence in Government policy. Our primary objective is to keep the recovery going by maintaining growth rates of more than 4% and by getting more and more people back to work. In this country, the big differential between being in poverty and being reasonably well off is having a job. We should do everything we possibly can to get people back to work. In response to the argument about a marginal tax rate of 62% for self-employed people, I would ask how many people will start a small business if they can go across to Manchester or Liverpool and get all sorts-----

Deputy Peadar Tóibín: The earnings of most people in this country who have small businesses are not next to or near €100,000.

Deputy Michael Noonan: Yes, but €100,000 is Sinn Féin's opening offer.

Deputy Peadar Tóibín: That is all we are discussing in this amendment.

Deputy Michael Noonan: That is another problem.

Deputy Peadar Tóibín: That is all that is in the amendment.

Deputy Michael Noonan: There is always a drift. If Sinn Féin gets into government and the country experiences economic and fiscal difficulties, the €100,000 threshold will start to go down because the Government will need to collect more taxes from people on middle incomes. The Deputy's proposal is positively dangerous.

Deputy Peadar Tóibín: That is what the Minister is proposing. We have not proposed that.

Chairman: It is now 6.35 p.m. It was proposed earlier that we would break for half an hour at this point. I appreciate that Deputy Boyd Barrett will not be able to come back at 7 p.m. Does he want to make a quick comment on this amendment?

Deputy Richard Boyd Barrett: I do.

Chairman: We will take our break in a minute or two.

Deputy Richard Boyd Barrett: We have returned into the area of fundamental differences and perspectives. For the record, I think the lack of economic literacy is on the part of the Minister and not on our part. It is worth mentioning, in the context of what has been said about consistency, that the Taoiseach once said he was "morally" opposed to putting taxes on the family home. There is a lack of consistency there because it has now become the only practical method of levying tax. Strangely, that was not the Taoiseach's view a few years ago. If we

are talking about consistency, I must point out that we have been genuinely consistent, and will remain so, in saying that we think taxes on the family home, as against so-called property taxes, treat huge swathes of people unfairly. That is the substance of our argument and it should not be mischaracterised. The Minister's incentives are primarily directed at the wealthiest sections of society. We are talking about the top 5% or 10%. Such people are the beneficiaries of the Minister's incentives, by and large. We are not talking about people on €60,000, €70,000 or €80,000, who are described by the Minister as the middle class. Approximately 5% of earners earn over €100,000 a year. According to the replies to our questions that we have received from the Minister, the average income of such people is approximately €185,000. We are also talking about the super profits of a small number of multinational corporations that have benefited from how this country's tax system is set up.

Chairman: I ask the Deputy to conclude as we need to take a 30-minute break.

Deputy Richard Boyd Barrett: I will finish by saying that the Minister's current approach might lead to temporary benefits, but it stores up big problems in the long term. We saw that with property. We think the Minister is doing the same thing now by focusing on foreign direct investment at the expense of the rest of the economy.

Deputy Michael Noonan: I would like to return to a question that was asked earlier by Deputy Boyd Barrett, but which I did not answer, unfortunately. As the Deputy said, there are valuable houses in the constituency he represents that are owned by elderly people who do not have incomes that are commensurate with the value of those homes.

Deputy Richard Boyd Barrett: The elderly are not the only people who own such homes.

Deputy Michael Noonan: When we introduced the property tax legislation, we deliberately included provisions in it to allow people in such circumstances to defer the property tax. It becomes a charge on the estate rather than on their income. We have allowed for that. People in the circumstances described by the Deputy do not have to pay property tax. Their obligations to the taxpayer can be-----

Deputy Richard Boyd Barrett: It is just a question of moving on the debt.

Deputy Michael Noonan: -----fulfilled subsequently because the charge is on the estate.

Chairman: I thank the Minister. I propose that we will take a sos for half an hour.

Deputy Peadar Tóibín: Does the Minister want to accept my amendment?

Chairman: I will put the question.

Amendment put and declared lost.

Sitting suspended at 6.40 p.m. and resumed at 7.10 p.m.

Chairman: Amendment No. 17 in the name of Deputy Richard Boyd Barrett has been ruled out of order.

Amendment No. 17 not moved.

Section 14 agreed to.

SECTION 15

Chairman: Amendment No. 18 in the name of Deputy Pearse Doherty has been ruled out of order, as it involves a potential charge on the people.

Amendment No. 18 not moved.

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

Deputy Pearse Doherty: This section relates to the increased film credit threshold. The Minister is well aware that Sinn Féin welcomed the changes made last year in moving from film tax relief on investments by individuals to tax relief for production companies. Is any increase in the level of film production expected as a result of the amendments made in this year’s Finance Bill and has any cost-benefit analysis been conducted of the effectiveness of this relief?

Deputy Michael Noonan: It is difficult to estimate these matters because the people commissioning films in Ireland are based abroad and work through Irish associates. I am increasing the limit because it appears to be the case that it was set too low. When I introduced it at €50 million, I promised that I would consider the position in due course. Approximately half of the production costs of a modern movie are incurred in Ireland, with the other half being incurred overseas in casting, finishing, cutting, production, etc. In the initial stages of developing the Irish industry we are unlikely to get these. A cap of €70 million should be able to attract movies with total budgets of approximately €150 million each. The expectation of those who inquired is that this will be the approximate gross budget of some of the movies that might be made in Ireland, but it is difficult to be certain. My advisers examined comparable incentives offered in other countries and they are allowed all over the place. We are not the most generous. Early last year the United Kingdom changed its incentives to make itself more attractive. It offer a lower effective tax rate than our 31% and has no cap. It is claimed that, if one wants to attract big budget movies, one must go higher. It seems there is a queue of film producers who want to shoot in London. We should be able to pick up some of the slack if they cannot find space or facilities there.

According to the analysis conducted across various Departments, while the tax incentive should be sufficient to drive a great deal of activity in Ireland, the lack of sufficient studio space of sufficient quality is an inhibition. I do not want to make strong claims for this measure, but I believed the situation required a change because that was where the argument lay. The Department of Arts, Heritage and the Gaeltacht was supportive of change, even to a higher level. It has the expertise and contacts, but we will see what happens. If little comes of it, it will cost us little in tax. It has been structured in such a way that the cost will be related to the level of activity. Dublin is strong. The people in Bray identified a premises in Limerick near the university which they have now acquired and they are fitting it out for productions as well. We will see how it runs.

It seems to me that if Northern Ireland can have a significant movie industry - as the Deputy will be aware, “Game of Thrones” is shot and developed in studios in Belfast and on location all up along the north Antrim coast by the Giant’s Causeway - there should be a stronger film industry down here as well.

Deputy Pearse Doherty: The change was made only last year. I am on the record calling for a review of many of the tax reliefs on an annual basis, although some of them do not seem to get the same attention. There is a 40% increase in the eligible limit for production companies, from €50 million to €70 million. The Minister mentioned that the Department of Arts, Heritage and the Gaeltacht was looking for a larger increase and that there is a sense out there that it is

too low. Has there been any particular request or lobby from the industry or individual production companies in this regard? Where is this coming from?

Deputy Michael Noonan: It is coming from the Department of Arts, Heritage and the Gaeltacht and from the Irish film industry. In Ireland, the structure is that there are people here who act as co-producers or agents for production companies abroad, and some of it was coming from at least one of those. I have had no communication that I can recall from a foreign-based production company. It was domestically-generated. I presume they were making their request knowing what the international industry were looking for.

As I say, it is hard to judge. When one allows for the fact that people normally look for more than they expect to get, it is hard to judge where the cap should be. I stated in the budget speech we or whoever is in the Department of Finance can review it again in two years. The commitment is there.

I will give the committee an idea of what is happening. In 2014, 72 applications were received by Revenue under the old scheme. Of these, 66 projects went ahead with an estimated cost to the Exchequer of €93,711,923 based upon relief being claimed at the higher rate of 41% that applied in 2014. The final tax cost will depend on claims made. The current figure in relation to this relief for 2014 is €72.6 million.

To date in 2015, 66 applications for the corporation tax credit were received with an estimated cost to the Exchequer of €48,219,224. Credits have been authorised to 35 projects at a cost to the Exchequer of €14,635,470. No one project has approached the current cap to date this year. However, one project under the old scheme made a subsequent application for additional episodes under the new scheme. This application, if made in entirety under the new scheme, would have breached the current cap.

Sometimes it is movies one is talking about. Seemingly, that is what the industry here would like to attract. It involves big employers, big budgets, etc. However, a lot of the activity here is television based. It would be something like “Game of Thrones”, which, I suppose, is one of the more popular episodic series on television at present. It builds up, depending on how many episodes they shoot here and if they come back to do another series.

As I say, I am a bit tentative in my answers because I am not absolutely certain of where it will head, but I am convinced that it is worth doing. We will see by experience how much it will cost and what the cost-benefit analysis at that point will be.

Deputy Pearse Doherty: I have two other questions to seek clarity on this. Even though the title of it is, “Relief for investment in films”, the Minister states it is also relief for investment in series, such as “Game of Thrones”.

Deputy Michael Noonan: Anything related.

Deputy Pearse Doherty: Is the limit on an annual basis?

Deputy Michael Noonan: It is per project. It is the cap on the budget of a project, and more than one in a year is possible.

Deputy Pearse Doherty: If a series is thinking of shooting here and it shoots series one here, that would be deemed as a project but series two, that they might shoot next year, would not be seen as the same project; it would be a separate project. Is that the case?

Deputy Michael Noonan: Yes.

Deputy Pearse Doherty: Lastly, the minimum that must be spent on production is €0.25 million. We are seeing an increase on the upper end, up to €70 million eligible for the corporation tax credit. However, the minimum that needs to be spent on a production is still €0.25 million. What of the fact that the Government is not reducing that to encourage smaller budget movies, home-grown films and series, etc., to avail of this tax credit?

Deputy Michael Noonan: I did not consider that and I did not have any advice that such would be of benefit. As I say, I am a little tentative about it. A series is generally regarded as a project. There was no request to do what the Deputy mentions. If we brought it down too low, for example, to small films, they would be an administrative burden on Revenue. The policy idea, coming from the Departments of Arts, Heritage and the Gaeltacht, is to build up the skills base for a significant film production industry here. Having done that, we might be in a position to attract more.

Deputy Pearse Doherty: Would reducing the threshold below €0.25 million for the cost of production enhance that building up of the skills base? With a threshold of the type of €70 million, one is talking about films such as “Star Wars”, series such as “Game of Thrones” and Universal Studios. One is talking about attracting established offshore entities to produce here which has all of the revenue benefits for the State, but in terms of the benefits of creating an indigenous sector, would it be worthwhile looking at incentives at lower limits?

Deputy Michael Noonan: It might be but that case has not been made to me. I am relying quite a lot on the Irish film industry and those who are active in the area already. I stated in the budget speech that we would review it again in two years time, and we can take those ideas into account then. I would be interested in evidence-based submissions.

Question put and agreed to.

SECTION 16

Chairman: Amendments Nos. 19 to 21, inclusive, are related and will be discussed together.

Deputy Michael Noonan: I move amendment No. 19:

In page 14, line 25, after “2014” to insert “is amended”.

As amendments Nos. 19 to 21, inclusive, relate to the employment and investment incentive scheme, I propose to take these amendments together.

Amendments Nos. 19 and 20 are technical in nature and are designed to correct drafting errors in section 16 of the Finance Bill, which amends Part 16 of the Principal Act (Employment and Investment Incentive).

Amendment No. 21 relates to those funds that have raised subscriptions by 31 December 2014 and are currently required, under section 506 of the Taxes Consolidation Act 1997, to invest the amounts subscribed for the purposes of the employment and investment incentive into eligible shares by 31 December 2015.

I am introducing an extension whereby in this specific set of circumstances, shares issued through the fund up to 31 January 2016 can be treated for the purposes of the relief as if they had been issued in the 2015 year of assessment. This amendment provides for a short extension of the time available to funds who need to ensure that all the companies they have targeted for

investments continue to meet the new requirements of the incentive and to complete their own compliance checks before shares are issued. This short extension allows limited additional time for these funds by treating such investments as if they were made within 2015. Without the amendment, should a fund miss the 31 December deadline for the issue of shares a fund would be required to refund all investments made thus disadvantaging both the individual investors and companies seeking to raise finance.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 20:

In page 14, to delete line 26 and substitute the following:

“(a) in subsection (1)(a)(ii), in paragraph (d) of the definition of “relevant period”, by substituting “ ‘relevant amount’ “ for “ ‘average relevant amount’ “;”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 21:

In page 16, between lines 38 and 39, to insert the following:

“(ii) by inserting the following after subsection (3):

“(3A) Notwithstanding subsection (3), where—

(a) in accordance with section 506, relief is due in respect of an amount subscribed between 1 January 2014 and 31 December 2014 as nominee for a qualifying individual by the managers of a designated fund, and

(b) the eligible shares in respect of which the amount is subscribed are issued between 1 January 2016 and 31 January 2016, the individual may elect by notice in writing to the inspector to have the relief due under subsection (2)(a) given as a deduction from his or her total income for the year of assessment in which the amount was subscribed to the designated fund instead of (as provided for in subsection (2) (a)) as a deduction from his or her total income for the year of assessment in which the shares are issued.”;”.

Amendment agreed to.

Question proposed: “That section 16, as amended, stand part of the Bill.”

Deputy Michael McGrath: Did the Minister give any consideration to increasing the annual investment limit for individuals, which currently stands at €150,000? The point has been made to me that the scheme would be far more effective and yield far greater results if it was made more attractive for investors. The Minister has made some changes which allow companies to raise more finance under the scheme but from the point of view of the investor if it could be made more attractive there might be a lot more investment in Irish companies that are seeking to expand, thereby benefitting the economy and providing additional employment. I am interested in hearing the Minister’s views on that point.

Deputy Michael Noonan: The cap is subject to the high earners restriction such that €80,000 was the maximum benefit that could accrue to an individual taxpayer. The argument put forward was that if these restrictions were not included there would be more investment

and so for a third year period the cap was increased. We have not considered increasing the cap beyond the €150,000 for those reasons. This will apply for another year. The review in 2014 showed the average investment was less than €150,000. We will have a better idea at the end of 2016.

Deputy Pearse Doherty: How can the Minister be sure that this scheme is not being used as a tax avoidance mechanism by high net worth individuals?

Deputy Michael Noonan: That is the risk we took when we raised the cap from €80,000 to €150,000. These measures are monitored by Revenue. My understanding is that it has worked as intended and there is more investment now, although involving only small amounts of money, all of which are less than €150,000.

Deputy Pearse Doherty: In terms of the profile of individuals who are investing, how do we know that this measure is not being used as a mechanism to reduce the effective tax rate downwards? Has Revenue undertaken any analysis in this regard and has there been any cost benefit analysis done of the relief?

Deputy Michael Noonan: It is not self assessment. To get the relief, one must get approval from Revenue. Revenue knows the high income earners governed by the relief. That is not to say that it would not approve the relief but at least it knows what it is doing. As I said, this measure is monitored by Revenue and reliefs have to be approved individually.

Deputy Pearse Doherty: Revenue might know that but I do not know it. How does the Minister know that this is not a scheme that is being used by high net worth individuals? We have the data in regard to other schemes. In terms of the property tax reliefs that were put in place under previous Administrations, reports after the fact were to the effect that they were used predominantly by high net worth individuals as a way of writing down their tax. When will we have some transparency in regard to the profile of individuals who are investing? Maybe what I am suggesting is now the case but without the information we do not know that. We have developed a scheme which we are not sure is not being abused by high net worth individuals.

Deputy Michael Noonan: The tax liabilities of individuals or companies are confidential. We are always reliant on Revenue to look at patterns in situations like this. The Minister for Finance, members of a finance committee or anybody else do not have access to the individual tax details of an individual's liability or a company's liability. The provision put in place on the advice of Revenue is that each individual investment up to €150,000 be approved by it rather than the individual or company making a stand-alone decision to invest and then automatically getting the relief. The fact that prior approval is necessary is a significant restriction.

On the general issue of information, Revenue deals with these issues when it appears before the various Oireachtas committees in regard to its annual report and so on. While Revenue cannot provide details in relation to an individual taxpayer it does supply sufficient information on trends on group activity to satisfy. At the end of the day, Revenue is independent. We all know the reason it has to deal with matters on a confidential basis. I believe Revenue is trustworthy and I support what it does.

Deputy Pearse Doherty: Sorry, could the Minister repeat the last point?

Deputy Michael Noonan: I support what Revenue does.

Deputy Pearse Doherty: Nobody is suggesting that anybody in this room does not support

what Revenue does. The question is in regard to the profile of individuals who are investing under this scheme. We have raised similar questions in the past in regard to other schemes, including the section 23 reliefs in terms of if they were to be abolished what type of profile of individual would have benefitted or lost as a result of that. If the Department does not already have access to this information, will it commission a report on the scheme to ensure that this type of investment incentive is not being used predominantly by high net worth individuals as a way of avoiding tax? Whether Revenue has to approve such investments or not is not the issue because Revenue has clear rules in regard to what governs approval and so on. This does not take away from the fact that we may have left something in our tax code that, while it serves one purpose might be abused by high net worth individuals. Has any cost benefit analysis been undertaken in regard to this relief?

The Minister might also inform the committee how many employees were hired on the basis of administration of this relief scheme and how much tax relief was given to businesses' employment.

Deputy Michael Noonan: The section provides that an individual shall not be entitled to relief in respect of any shares unless the shares are subscribed and issued for bona fide commercial purposes and not as part of a scheme of arrangement, one of the main purposes of which is the avoidance of tax. If the Revenue in its prior approval process believes that one of the principal purposes of the investment is the avoidance of tax it will not approve the investment. If Revenue thought the scheme was being abused it would inform the Department in the normal way so that the gap could be closed in a finance Bill. That is how Revenue operates. I will raise the issue with Revenue.

Deputy Pearse Doherty: Will the Minister respond to my other questions in regard to the cost benefit analysis of the relief, how many employees were hired as a result of the introduction of the relief, the businesses that received the tax relief and what level of tax relief was afforded in the last year in respect of which figures are available?

Deputy Michael Noonan: In 2012, €13.4 million was invested in 78 companies by 352 investors in respect of which the cost to the Exchequer was €4 million. In 2013, €42.4 million was invested in 190 companies by 1,028 investors, in respect of which the cost to the Exchequer was €12.4 million. In 2014, €62.7 million was invested in 239 companies by 1,395 investors, in respect of which the cost to the Exchequer was €18.8 million. I have some supplementary information which may go over the same ground. In 2013, the employment investment incentive, EII, cost €12.4 million, with 1,028 investors investing in 190 companies. Provisional information for 2014 indicates that the cost of EII is likely to be in the region of €18.8 million with 1,395 investors, including five EII funds and 239 companies. The restriction applies when an individual avails of tax reliefs of more than €80,000. The following table shows the number of EII investors who invested in excess of €80,000 in qualifying SMEs.

2012	33
2013	105
2014	199

These statistics would imply that the removal from the higher earners restriction has succeeded in encouraging more individuals to invest in qualifying SMEs.

Deputy Pearse Doherty: I am seeing the figures for 2014 for the first time. Some 1,395 investors have invested in 239 companies. Assuming that none of them invested in individual

companies or a single individual invested individually in a company, we can say that at a minimum each one of the 239 companies had on average six investors availing of this scheme. Obviously some companies would have had one investor but others might have had a couple of dozen investors. Would that be the case? Does the Minister have figures on this?

Deputy Michael Noonan: I can throw some light on the Deputy's questions about jobs. Meaningful data in relation to the number of jobs supported should become available in 2016. Under the terms of the scheme, relief in respect of 30% of the amount invested in a qualifying company is granted to the investor in the year of investment. The balance is only due where it has been proven that employment levels have increased at the company at the end of the holding period for shares, or where evidence is provided that the company used the capital raised for expenditure on research and development. As the EII was only introduced late in 2011, there are only a small number of claims for the balance of the relief for investments made in 2012, which are now falling due. It will only be possible at the end of 2016 to examine employment figures in relation to the first full year of investment, which was 2013.

Deputy Pearse Doherty: Okay. Has the holding period been reduced?

Deputy Michael Noonan: No.

Deputy Pearse Doherty: Is it still three years?

Deputy Michael Noonan: It is four years.

Deputy Pearse Doherty: So there has been no change to the holding period and it is still four years.

In 2014, the last year for which we have data, the number of investors is six times the number of companies in which there was employment incentive investment. Does the Minister have details on the level of individual investors who invested in these companies? As I said, on average it is about six investors per company but there may be cases where a large number of investors have invested in a company.

Deputy Michael Noonan: We do not have that detail. I am told that several investors would invest in a number of companies.

Deputy Pearse Doherty: Is there any concern across the 239 companies that on average six investors invested in these individual companies? Is it a case that the companies advertise the EII scheme as a tax reduction scheme for investors? Is that the way the scheme was intended to work?

Deputy Michael Noonan: The investments are made by funds and they are not separately identified. Therefore we would have to examine each case to have the level of data which the Deputy has talked about

Deputy Michael McGrath: Will the Minister confirm that the €150,000 limit is per investor not per investment? Even if an individual invested in ten companies, the total amount that he or she can invest under the scheme is €150,000. Is that correct?

Deputy Michael Noonan: Yes.

Deputy Michael McGrath: The Minister has confirmed that the limit is €150,000 per investor.

Deputy Pearse Doherty: Obviously the relief is to the individual, who, as the Minister has said, must be approved by Revenue. The Minister mentioned that the fund rather than the individual makes the investment; will he explain that to me?

Deputy Michael Noonan: The investor puts money into a fund in the normal way for the purposes of investing. The fund managers have the knowledge of appropriate and fruitful investments. The target companies are SMEs. It is part of the general incentive package to get investment funds into SMEs. It seems to be working, even though it is a limited scheme.

Deputy Pearse Doherty: Is it the case that these investors do not know much about the business?

Deputy Michael Noonan: I am told that investors can invest directly or they can use a fund, but fund investment seems to be more the practice. That is not to assume that they do not know much about investment. They might think the fund is manned by people who are very good at getting returns on investments.

Deputy Pearse Doherty: We will leave it at that.

How does the Minister justify broadening the relief to nursing homes, when running nursing homes is a profitable business?

Deputy Michael Noonan: The relief is for building an extension to existing nursing homes, rather than for new nursing homes. The justification is that in parts of the country, particularly in certain areas of Dublin, but also in the greater Cork area, there is a shortage of nursing home places. It is an efficient use of a tax incentive to allow for the expansion of existing nursing home facilities rather than having to start again with incentives for new nursing homes.

Deputy Pearse Doherty: Is this a type of property tax relief?

Deputy Michael Noonan: No, it is an incentive for investment in extensions to nursing homes.

Deputy Pearse Doherty: Is it a tax relief to build an extension to the nursing home, or is it a tax relief for the actual business of running a nursing home?

Deputy Michael Noonan: The condition is that a nursing home, operating as a nursing home which proposes to build an extension, could use the appropriate funds under this scheme.

We had a request from the Minister for Health to help extend the number of available beds in nursing homes to reduce pressure on the health system. We all know we have an ageing population and that nursing homes are part of the solution. There are pressure points in certain geographic locations. I presume the demand will continue to rise as the age profile of the population increases.

Deputy Pearse Doherty: Let me clarify, this is to encourage the nursing home to build an extension to the property. I know that property tax relief is a dirty phrase in the Chamber.

Deputy Michael Noonan: It is an incentive to investors to invest in the provision of extensions to nursing homes because at present that is considered to be good social capital. Investment in social capital in a targeted way is a good use for a tax break.

Deputy Pearse Doherty: Will it apply to private nursing homes and not public nursing

homes?

Deputy Michael Noonan: It will apply to private investment in private nursing homes.

Many of them will be constructed as SMEs. There are some that are more extensive than that but I am not sure of their corporate arrangements. There are nursing home groups that have a number of nursing homes.

Deputy Pearse Doherty: Is the relief only for the extension of facilities to the existing nursing home? Could a company with a nursing home operational in County Donegal for example or in anywhere else which wanted to build a second nursing home avail of this tax relief scheme?

Deputy Michael Noonan: It is a relief for extensions to existing nursing homes.

Deputy Pearse Doherty: Very good. It seems very narrow. If there is a shortage of nursing homes I am not sure why the relief would not be available if a company wants to build a nursing home down the road, particularly if it is justified for extensions. The Minister for Health was mentioned. Have there been specific cases that have raised the need for this type of relief to allow the extension of nursing homes? Is there specific lobbying to the Departments of Finance or Health in regard to this property tax relief?

Deputy Michael Noonan: I understand the Department of Health commissioned Indecon to do a report on this and its recommendation was that this be extended to extensions to nursing homes. We are doing it at the request of the Department of Health.

Deputy Pearse Doherty: Is that report published or available?

Deputy Michael Noonan: I presume that is a matter for the Department of Health. Most reports are published.

Deputy Pearse Doherty: Given that we are asked to authorise the amendment to extend this nursing home tax relief that came out of the report, it should be made available to us.

Chairman: The committee may write to the Minister for Health and request a copy of the report.

Deputy Michael Noonan: I am not sure if it has been published.

Question put and agreed to.

NEW SECTION

Chairman: Amendments Nos. 22 to 34, inclusive, are related and will be discussed together.

Deputy Michael Noonan: I move amendment No. 22:

In page 17, to delete line 23 and insert the following:

“17. (1) Section 598 of the Principal Act is amended—

(a) in subsection (1)(a), by inserting the following definition:

“ ‘farm partnership’ means a milk production partnership or a registered farm partnership (within the meaning of section 667C);”,

and

(b) in subsection (1)(d)(iib), by substituting “farm partnership” for “milk production partnership” in both places where it occurs.

(2) Part 23 of the Principal Act is amended—”.

I am bringing forward a number of amendments to the taxation of farming. The principal amendment is to create an appeal mechanism for farmers who want to form a registered farm partnership or a succession farm partnership and who disagree with a decision of the Minister for Agriculture, Food and the Marine. It is proposed that the farmer may appeal the Minister’s decision to an independent appeals office. The appeals officer will be a solicitor or barrister with five years of experience and who is not in the full-time service of the State. This is a similar structure to appeal mechanisms found elsewhere in agricultural legislation.

A further amendment is due to an omission. The section, as initiated, extended the stock relief for farmers and registered farm partnerships. The extension of stock relief for young trained farmers was omitted and that is now provided for. I am also introducing a change to permit the Revenue Commissioners to share information with the Minister for Agriculture, Food and the Marine in the case of the failure by a registered farm partnership or succession farm partnership to meet the conditions set down. I am also proposing a number of technical amendments. For example, these update references to milk production partnerships to references to registered farm partnerships.

Deputy Michael McGrath: Amendment No. 34 deals with the insertion of a section providing for an appeals officer. What is the overall rationale for providing separately for an appeals officer for this issue? How does this relate to the wider review process and appeals system that applies within the Revenue Commissioners?

Deputy Michael Noonan: Devising an appropriate appeals mechanism that satisfies all necessary requirements is complicated and it is better that a carefully drafted section be included on Committee Stage rather than included at publication of the Finance Bill if it was subsequently realised it was not fit for purpose. This provision has been drafted in consultation with the Department of Agriculture, Food and the Marine; the Attorney General’s office; and the Office of the Parliamentary Counsel. The agricultural appeals office administers appeals about decisions regarding farming schemes and it was unclear if that office would be able to make decisions on issues that could affect access to tax relief. There is a general appeals office to which one can appeal on the application of schemes but there was a doubt as to whether this would be appropriate for tax relief purposes.

Amendment agreed to.

SECTION 17

Deputy Michael Noonan: I move amendment No. 23:

In page 18, to delete lines 36 to 38, and in page 19, to delete lines 1 and 2 and substitute the following:

“(d) in section 667B—

(i) in subsection (5)(b), by substituting “2018” for “2015”, and

(ii) in paragraph 2 of the Table to that section—

(I) in subparagraph (q), by substituting “Sustainable Agriculture,” for “Sustainable Agriculture.”, and

(II) by inserting the following after subparagraph (q):

“(r) Bachelor of Science (Honours) in Agriculture.”,.”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 24:

In page 19, line 5, to delete “section, section 667D and section 667E” and substitute “section and sections 667D to 667G”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 25:

In page 20, to delete lines 14 to 19 and substitute the following:

“ ‘primary participant’ means the precedent partner, within the meaning of section 1007;”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 26:

In page 20, between lines 22 and 23, to insert the following:

“ ‘register of succession farm partnerships’ shall be construed in accordance with section 667D(1);”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 27:

In page 22, line 13, after “alteration” to insert “and amend the relevant entry on the register”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 28:

In page 22, line 31, to delete “only register a farm partnership where” and substitute “only enter a farm partnership on the register where”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 29:

In page 22, line 34, after “the” where it secondly occurs to insert “farm”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 30:

In page 24, line 5, to delete “registered” and substitute “entered”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 31:

In page 24, to delete lines 17 to 19 and substitute the following:

“(c) the business plan of the farm partnership shall have been submitted to, and approved by, the Minister.”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 32:

In page 25, to delete lines 15 to 18 and substitute the following:

“(5)(a) The Minister shall only enter a farm partnership on the register of succession farm partnerships where he or she is satisfied that the farm partnership has met the conditions set out in subsection (2).

(b) Where the Minister is not satisfied that the farm partnership is continuing to meet the conditions set out in subsection (2), then the Minister shall remove the partnership from the register of succession farm partnerships with effect from the date upon which the partnership ceased to meet those conditions.”.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 33:

In page 26, to delete line 28.

Amendment agreed to.

Deputy Michael Noonan: I move amendment No. 34:

In page 28, line 28, to delete “provisions.” and substitute the following:

“provisions.”,

(h) by inserting the following section after section 667E (inserted by *paragraph (g)*):

“Appeals officer

667F. (1) The Minister may appoint a person to be an appeals officer (in this section and section 667G referred to as an ‘appeals officer’) for the purposes of an appeal under section 667G.

(2) An appeals officer shall be either a practising solicitor or a practising barrister, either of whom shall have not less than 5 years experience.

(3) A solicitor or barrister in the full-time service of the State shall not be an appeals officer.

(4) An appeals officer shall—

(a) hold office for a term of 3 years and, subject to subsection (6), shall be eligible for reappointment on the expiry of that term of office,

(b) be independent in the performance of his or her functions,

(c) be paid such fees and allowances for expenses as the Minister, with the consent of the Minister for Public Expenditure and Reform, may determine, and

(d) at such intervals and in relation to such periods as are specified by the Minister, submit a report in writing to the Minister in relation to the performance of his or her functions as an appeals officer during the period to which the report refers.

(5) An appeals officer may—

(a) resign from office by letter addressed to the Minister and the resignation shall take effect on the date on which the Minister receives the letter, or

(b) be removed from office by the Minister where in the opinion of the Minister the appeals officer —

(i) has become incapable through ill-health of effectively performing his or her functions under this section, or

(ii) has committed stated misbehaviour.

(6) An appeals officer may not serve more than two consecutive terms of office.

(7) The appeals officer may, in consultation with the Minister, establish the procedures to be followed by him or her regarding—

(a) the holding of a hearing,

(b) the examination by the appeals officer of the parties to the appeal or other persons,

(c) requests by the appeals officer for information or further information, for the purposes of the appeal, from the parties to the appeal or other persons,

(d) provision by the appeals officer to the parties to the appeal of all information for the purposes of the appeal, received by the appeals officer, and

(e) any other matter as the appeals officer considers appropriate for the proper performance by the appeals officer of his or her functions.

(8) The Minister shall, subject to the provisions of any enactment or rule of law, indemnify an appeals officer appointed by the Minister in respect of any act done or omitted to be done by him or her in the performance or purported performance of his or her functions as such appeals officer, unless the act or omission concerned was done in bad faith.”,

and

(i) by inserting the following after section 667F (inserted by *paragraph (h)*):

“Appeals

667G.(1) The Minister shall give notice in writing to the primary participant con-

cerned of his or her decision—

(a) to refuse to enter, under section 667C(1D)(a), the farm partnership on the register,

(b) to refuse to enter, under section 667D(5)(a), the farm partnership on the register of succession farm partnerships,

(c) to remove, under section 667C(1B)(a), the farm partnership from the register,

(d) not to amend an entry on the register under section 667C(1B)(b),

(e) to refuse to approve the business plan of a farm partnership for the purposes of section 667D(2)(c),

(f) to remove, under section 667C(1D)(b), the farm partnership from the register, or

(g) to remove, under section 667D(5)(b), the farm partnership from the register of succession farm partnerships.

(2) A notice under subsection (1) shall—

(a) include reasons for the decision,

(b) inform the primary participant that—

(i) he or she may appeal the decision, in writing, within 21 days of the date of the notice to the appeals officer, and

(ii) the notice of appeal shall specify the grounds for the appeal,

and

(c) inform the primary participant that the decision shall be suspended until—

(i) the decision becomes final under subsection (3), or

(ii) the disposal of an appeal under this section.

(3) If, on the expiration of the period of 21 days beginning on the date of the notice under subsection (2), no appeal under this section is made by the primary participant, the Minister's decision under subsection (1) is final.

(4) A notice of appeal shall comply with subsection (2)(b) and shall be accompanied by such fee as may be determined by the Minister from time to time and published in such manner as the Minister considers appropriate, including on the internet.

(5) For the purposes of an appeal the appeals officer—

(a) shall notify the Minister of the appeal,

(b) shall request submissions from the parties to the appeal and they shall furnish the submissions to the appeals officer within the period, which shall be not less than 7 days, specified in the request,

(c) following consideration of the submissions, may hold a hearing,
and

(d) may request information from the parties to the appeal, or any other person as the appeals officer considers necessary for the proper performance of his or her functions and the parties to the appeal, or other person as the case may be, shall furnish the information to the appeals officer within the period specified in the request.

(6) If a hearing is held—

(a) each of the parties to the appeal is entitled to be heard at the hearing, and

(b) the appeals officer may adjourn the hearing of the matter at any stage in the proceedings until a date specified by the appeals officer.

(7) In considering an appeal under this section the appeals officer shall consider—

(a) submissions from the parties to the appeal,

(b) the evidence presented at any hearing of the matter, and

(c) all information furnished to the appeals officer.

(8) On completion of his or her consideration of the appeal the appeals officer shall make a decision determining the appeal as soon as practicable in all the circumstances of the case, and in any case not more than 42 days after the date of the notice of appeal, which may be a decision to—

(a) affirm the decision of the Minister, or

(b) quash the decision of the Minister and allow the appeal.

(9) The appeals officer shall notify the parties to the appeal of the decision under subsection (8) as soon as practicable after it is made.

(10)(a) A party to the appeal may apply to the High Court regarding a decision of the appeals officer on a point of law and the determination of the High Court on such an appeal shall be final and conclusive.

(b) An application to the High Court under paragraph (a) shall be made not later than 14 days after the notification under subsection (9), to the parties of the decision of the appeals officer.”.

(3) Section 851A(8) of the Principal Act is amended—

(a) in paragraph (j), by substituting “enactment,” for “enactment, and”,

(b) in paragraph (k), by substituting “purpose, and” for “purpose.”, and

(c) by inserting the following after paragraph (k):

“(l) where it relates to a failure, by a registered farm partnership, within the meaning of section 667C, to continue to meet conditions set out in section 667C(1A) or 667D(2), as the case may be, and the information is disclosed only to the Minister for

Agriculture, Food and the Marine.”.”.

Amendment agreed to.

Section 17, as amended, agreed to.

SECTION 18

Chairman: Amendments Nos. 35 to 37, inclusive, have been ruled out of order because of a potential charge on the Exchequer.

Amendments Nos. 35 to 37, inclusive, not moved.

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

Deputy Pearse Doherty: This section is going in the right direction but why did the Government not move to where the all-party report, which the Government parties signed up to in May 2012, was with regard to the taxation of offshore oil and gas? Why does this section not reflect more of the views within that report?

Deputy Michael Noonan: This section amends Part 24 of the Taxes (Consolidation) Act 1997 to introduce a new petroleum production tax or PPT. The tax will apply to petroleum profits from discoveries made under petroleum authorisations granted from June 2014. The PPT is as a result of a Government decision of 17 June 2014 to bring into law new fiscal terms for oil and gas exploration and production. This was recommended in the Wood MacKenzie report published at that time by this Government.

The PPT will replace the profit resource rent tax introduced in the Finance Act 2008 for new petroleum authorisations. The overall objective of the new fiscal terms is to strengthen the taxation provisions to provide for an increased financial return to the State from future discoveries while continuing to attract the high-risk exploration investment needed to prove the potential of the Irish offshore. The petroleum production tax will apply on a field-by-field basis. It will be calculated on a field’s net income using a rate that operates on a sliding scale between 0% and 40%. The tax rate is determined by reference to the profit ratio of each field, which is calculated using a formula set out in the legislation.

Additionally, the new fiscal terms provide that in each year of production, where the tax payable under the profit ratio formula would be less than 5% of the annual gross revenues, a minimum tax rate of 5% of gross revenues will be charged. The PPT will be payable in addition to the existing 25% corporation tax rate that applies to the profits from oil and gas exploration and production. The tax will be payable on an annual basis, with scope for more frequent payments in light of developments in the Irish offshore. Petroleum production tax payments will be deductible for the purposes of calculating the amount of corporation tax due. The introduction of the PPT will increase the maximum marginal tax take on a producing field from 40% to 55%.

The Joint Committee on Communications, Natural Resources and Agriculture report was published on 9 May 2012 and contained a total of 11 recommendations, including that there be a significant increase in the tax rate applying to profits from production of oil and gas. The committee’s report was debated in Seanad Éireann on 27 June 2012. The debate opened in Dáil Éireann on 4 May 2013 and concluded on 9 July 2013. During the course of the July Dáil debate on the joint committee report, the then Minister for Communications, Energy and Natural Resources indicated his intention to seek further independent expert advice on the fitness for

purpose of Ireland's fiscal terms in advance of the launch of the 2015 Atlantic margin licensing round. Wood Mackenzie was engaged to carry out that assignment. In the course of its work, Wood Mackenzie received the joint committee report and met with a number of interested parties, including members of the Joint Committee on Transport and Communications and members of the former Joint Committee on Communications, Natural Resources and Agriculture, which produced the 2012 report. The consultants also met representatives of the oil industry, trade unions and other participants in the debate on fiscal terms. In addition, they conducted a substantial amount of quantitative analysis to establish the impact of current and possible future fiscal terms on a wide range of hypothetical future oil and gas field economics.

The results from the analysis were compared with those obtained under the fiscal terms of a peer group of countries of a similar profile to Ireland in terms of exploration. The petroleum production tax that is being introduced in this Bill is as a result of the analysis and subsequent recommendations set out in the Wood Mackenzie report. The joint committee report was considered by Wood Mackenzie, as I said, and specific references to that report are included in the final report from the consultants. In particular, the Wood Mackenzie report noted that the joint committee's recommendation to increase the tax rate to 80% for very profitable fields might be a deterrent to incremental investment. It noted, too, that the joint committee's recommendation to increase the existing regime's tax rate would have no impact on the State's share of revenue in the early years of production. The Wood Mackenzie report recommended instead an arrangement whereby the State would receive a minimum annual payment of 5% of the gross revenues of a field once production has commenced. The consultants agreed with the joint committee's recommendation that retrospective changes to fiscal and licensing terms could risk long-term reputational damage. The Deputy will see, therefore, that the joint committee report informed the review by Wood Mackenzie.

The joint committee report recommended increases to the petroleum resource rent tax of 40% for small discoveries, 60% for medium discoveries and 80% for very large discoveries. It is important to recognise that Ireland competes with other countries to attract exploration investment and the fiscal terms cannot be set in isolation from that fact. When compared with successful island gas-producing countries, the level of exploration drilling in the Irish offshore is very low, with only 159 exploration and appraisal wells drilled since exploration began. More than two thirds of those wells were drilled in the 1970s and 1980s. The probability of a commercial discovery on drilling of a well is one in 32 in Ireland, compared with a probability of one in six in the United Kingdom and one in seven in Norway. The joint committee's recommended rate changes would, in the case of very profitable discoveries, have seen a higher rate of tax applying in Ireland than in Norway. It is impractical to expect Ireland to have Norwegian-style tax rates without first having Norwegian levels of commercial discovery.

Deputy Pearse Doherty: We might come back to some of this on Report Stage. In regard to the date specified in this section, which is 18 June 2014, will the Minister explain the significance of that date and why it was chosen?

Deputy Michael Noonan: It relates to the date on which the Wood Mackenzie report was published. The intention of the Government arising out of the Wood Mackenzie report was made public at that time. The effective date is from the time when the terms were first made public.

Deputy Pearse Doherty: Is there anything to prevent the Minister from altering that date? Obviously, there is nothing to prevent its being taken closer to today's date, but what about pushing it back prior to the publication of the Wood Mackenzie report and the Government

statement?

Deputy Michael Noonan: When it comes to things like oil exploration, certainty is very important. To change a tax regime is not something one does with great frequency because the investment period, exploration period and development period can be quite long. To do it once and fix the date is acceptable, but to start moving dates back or forward at this stage would be imprudent and could be damaging. Since this was done, there has not been much drilling. With energy prices having gone down so much in the past year, we probably will not see a rush to drill in deep Atlantic waters.

To give the Deputy a better insight, the number of explorations and appraisals of wells that took place between 2003 and 2013 was 17 in Ireland, 857 in the UK and 445 in Norway. Those explorations led to no commercial discovery in Ireland, 56 discoveries in the UK and 71 in Norway. In terms of results, therefore, we are not as fruitful as the other countries to which there is frequent reference in these discussions. In Ireland, the probability of a discovery on drilling of a well is one in eight and the probability of a commercial discovery is one in 32. In the UK, the probabilities are one in four and one in six, respectively, and, in Norway, one in two and one in seven, respectively.

Deputy Pearse Doherty: One would wonder why the oil companies come here at all. Perhaps it is to do with Bertie Ahern's big giveaway in the Finance Bill he produced in 1992. It is not just about probability, however, but also a question of the risk relative to the return. I asked whether there is anything to prevent the Minister from setting the date at an earlier stage.

Deputy Michael Noonan: Why would I do so? Where is the advantage in it?

Deputy Pearse Doherty: That does not answer my question. A date of 18 June 2014 is being set down in law and I would like to know if there is anything to prevent us from setting an earlier date.

Deputy Michael Noonan: Possibly not, but there is a logic in the date selected because it is when the new terms were first promulgated.

Deputy Pearse Doherty: There is the possibility of capturing commercial finds made under what was the most lucrative tax regime in the world under the Finance Act 1992.

Deputy Michael Noonan: Retrospective taxation is very difficult and I would not be disposed to changing the terms retrospectively. I would need to hear very strong arguments before I would consider changing the date.

Deputy Pearse Doherty: The Minister would not be changing the terms, only the date. He changes the tax code all the time. This refers to tax that will be paid in the future. It is not stating we would need all of the tax now. It would come from finds made. It concerns a licensing option granted on or after 18 June 2014.

Deputy Michael Noonan: The Deputy is suggesting I change the time from which the new terms apply by moving it back rather than forward. In moving it back I would be moving into a space where a different set of terms applied and no notice was given that new terms would be promulgated. There are considerations about legitimate expectations and so on.

Deputy Pearse Doherty: With respect, that is what happens in the Finance Bill every year. When I built my house in 2004, I had a legitimate expectation that the Minister would not come

along and slap a property tax on it, but he did. He was entitled to do so because he did not ask me to pay property tax from 2004 to the date the tax was provided for in law; he introduced it from a certain date onwards on houses built prior to that date. Can he, on licences granted prior to 18 June 2014, say, 24 April 1992, apply a new tax on commercial finds made from hereon? Is that not the case?

Deputy Michael Noonan: I do not think the Deputy's comparison with building a house in 2004 runs. He built the house in 2004 taking into account the circumstances of the time, but nobody subsequently attempted to change those circumstances. When I introduced property tax, it applied only from the effective date onwards. The Deputy is suggesting people who invested and drilled and perhaps made discoveries under a certain licensing and tax regime should be penalised retrospectively. My sense of the law, without being legally qualified, is that this would not run. It would, I think, be illegal or certainly challengeable in court.

Deputy Pearse Doherty: I am not suggesting they be taxed retrospectively but in the future. The Minister is setting the criteria for licensing options granted on or after 18 June 2014. Changing the date allows him to tax them from hereon. For example, under the regime I entered into in 2004, there was property tax. The Taoiseach said that would have been immoral. Therefore, even before Fianna Fáil was ousted from power, the Taoiseach in waiting had given a commitment that this would not happen, but the regime changed and the Government did introduce such a tax.

Deputy Michael Noonan: I am not disposed to it, even if the Deputy is legally correct, as I do not believe he is. I return to my earlier argument. In these matters investors need certainty. It is not good policy if they can be arbitrarily penalised after the event. I also think it would be subject to legal challenge.

Deputy Pearse Doherty: When somebody invests €3 million in an industrial building in south County Dublin and the Minister says he needs to increase the rate of corporation tax to 14%, is he penalising after the fact, or is it the legitimate right of a Government to increase taxes at any point, given the circumstances of the time, on profits that will accrue from hereon? I know that the Minister is not suggesting this, but is that not, in effect, what he is doing? Is that not what we do all the time? How could it be illegal? We are not saying we want to tax all of the profits made up to now at a higher rate. In the Bill the Minister has a starting point of 18 June 2014. While that is the stated intention of the Government, the date set has no legal standing, apart from an expectation that something should happen. Until this Bill is passed and enacted, it does not have legal standing. It is only a Government promise and we know what happens to Government promises.

Deputy Michael Noonan: Under this Administration Government promises have been fulfilled. We set out what we would do and we have done it. I would say 90% of what we laid out in 2010 has been fulfilled and a little more. I am no expert on the industry and neither is the Deputy. I understand there is a ten-year period in which to explore, followed by a period of 15 years in which to develop the typical find. The investment is, therefore, very long term. An essential part of attracting people to develop whatever oil resources are to be found under the sea, especially under the Atlantic Ocean, is certainty for investors. Compared with the United Kingdom and Norway, Ireland is not the prime site or first choice. Any change in the date in the Bill would remove the certainty which is essential in encouraging investment.

Deputy Pearse Doherty: On direct lobbying on this section or matters related to it, apart from the report the Minister spoke about that was published in June, to what other lobbying was

the Minister or his Department subject?

Deputy Michael Noonan: I was not subject to direct lobbying and met no interests from the oil industry, the exploration industry or those involved in associated activities. Officials in the Department meet many people, but they did not meet anyone in the past six months when working on the Bill, but that does not mean they met any before then.

Question put and agreed to.

Amendment No. 38 not moved.

Section 19 agreed to.

SECTION 20

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

Deputy Pearse Doherty: In this section the number of days is extended from 20 to 46. What is the motivation behind this change?

Deputy Michael Noonan: The section amends paragraph 15(1) of Part 4 of Schedule 2 to the Taxes Consolidation Act 1997 in relation to the due date for the filing of the annual encashment tax return and the payment of the encashment tax due. Encashment tax is required to be deducted by paying and collecting agents when they pay or receive payment of certain public revenue dividends or interest and dividends of certain non-resident entities. The tax collected is paid to the Collector General.

Schedule 2 deals with the assessment, charge and payment of encashment tax. This section amends Schedule 2 to change the return filing and payment date from the 20 January to 15 February. The original date was proving difficult for industry to meet. There is no overall net cost to the Exchequer in making this change.

Question put and agreed to.

SECTION 21

Deputy Michael Noonan: I move amendment No. 39:

In page 35, between lines 7 and 8, to insert the following:

“(2) (a) *Subsection (1)* shall apply to any life policy (within the meaning of Part 26 of the Principal Act) commenced on or after 1 May 2006.

(b) As respects chargeable events occurring on or prior to 31 December 2015 in relation to policies referred to in paragraph (a), section 865(4) of the Principal Act shall apply as if the reference in that subsection to the making of a claim within 4 years after the end of the chargeable period to which the claim relates was a reference to the making of a claim within 4 years after the end of the chargeable period ending on 31 December 2016.”.

This amendment relates to a technical amendment to section 21 of the Bill to ensure that the provision operates as intended. Section 21 of the Bill amends section 730E(2) of the Taxes Consolidation Act 1997 by removing the requirement that a declaration of non-residence must be completed by a policy holder at or about the time of the inception of a life policy.

The amendment in section 21 is intended to have effect in regard to policies taken out on or after 1 May 2006 to enable those policy holders, who were resident when their policies commenced and who have since become non-resident, perhaps through emigration, to claim a refund of exit tax suffered while they were non-resident. The new subsection is therefore necessary to give effect to the intention of these provisions. In addition, a related technical amendment is made to ensure that the four year limitation on the timing for the making of a claim for repayment of tax does not prevent policy holders from making a claim.

Amendment agreed to.

Section 21, as amended, agreed to.

Sections 22 and 23 agreed to.

NEW SECTION

Chairman: Amendments Nos. 40 and 41 are related and may be discussed together.

Deputy Pearse Doherty: I move amendment No. 40:

In page 35, between lines 29 and 30, to insert the following:

“**25.** The Minister shall, within nine months from the passing of this Act, prepare and lay before Dáil Éireann a report on options available for the introduction of strict anti-avoidance measures within the construction sector, with regards to bogus self-employed workers.”.

This amendment calls on the Minister for Finance to prepare and lay before the Dáil, within nine months of the passing of this Bill, a report on options available for the introduction of strict anti-avoidance measures within the construction sector with regard to bogus self-employed workers. The classification of certain workers within the construction and IT sectors is an issue that has been going on for many years. I understand there has been a joint investigation, involving the Revenue Commission and the Department of Social Protection, on this matter and that it has identified a number of cases. However, I believe this goes way beyond the reported 200 cases identified in the construction industry mid-year.

We need a report that considers what can be done. Are amendments required to the taxation code in regard to dealing with strict anti-avoidance measures? It is important that this is done and completed before consideration of next year's Finance Bill. We call on the Minister to begin that work and to have it ready so that it can be discussed and teased out in ample time to ensure that we can, if necessary, amend sections of the Finance Bill to stamp out this type of activity. This activity brings a loss to the State and Revenue, but it is also an issue of workers' rights in that these workers are not afforded the type of protections employees are entitled to. The bumping up of profits of many of these companies is also at the core of this activity. Some people enter into this classification voluntarily, while others only do so because it is the only way they can get a job.

I ask the Minister to consider these amendments favourably and to have some type of analysis done that can be published and teased out.

Deputy Michael Noonan: With the Chairman's permission I propose to address amendments Nos. 40 and 41 together.

The issues raised by the Deputy reflect legitimate concerns surrounding employment law

which can extend beyond both the construction and the IT sectors. The employment market has become increasingly complex in recent years, to the point that there are many variations on how people are engaged by end users. For example, the use of intermediary type structures to provide labour has become quite prevalent across a number of sectors. This is particularly so in the IT, pharma and airline industries, although it also features in the media and construction sectors. While the use of intermediary companies is generally not a predominant feature in the construction sector, significant taxation risks attaching to this sector necessitated the introduction of the RCT system which in recent times has moved to an electronic platform, eRCT.

I am informed by the Revenue Commissioners that the construction sector is an acknowledged area of high risk internationally and in Ireland it is no different. The scale of the activity carried out within the sector also contributes to a high risk rating. Based on real time data that is available to Revenue from the electronic relevant contracts tax system, in 2014 approximately 320,000 contracts to the value of €29 billion were reported by contractors, along with payment notifications of roughly €10.1 billion.

There are a number of risks associated with construction contracts and Revenue is continually monitoring developments to ensure that the compliance programmes are tailored to meet evolving risk areas. This process is aided by the data Revenue gets through the eRCT system as well as its risk evaluation analysis and profiling, REAP, system and other data sources.

Revenue conducts the full range of interventions to combat tax evasion in the sector. This includes risk management interventions, Revenue audits and investigations as well as site visits. The outcome of Revenue's work includes recovering unpaid tax, including PAYE tax from employers who failed to operate the PAYE system on payments made, the payment of interest on late payment and the pursuit of penalties for failure to notify Revenue, through the eRCT system, of contracts entered into and payments made under these contracts.

I am aware that concern has been expressed that the eRCT system promotes the use of bogus self-employed situations. As with any contract of engagement in the construction sector, whether a person is engaged as an employee or as a self-employed contractor is determined by the facts and evidence of each case and guidance on that matter is provided in the code of practice for determining employment or self-employment status of individuals, which was prepared jointly by the Irish Congress of Trade Unions, business representative bodies and relevant State agencies.

It is important to point out the eRCT system is a tax deduction at source system and it does not determine whether a person in the construction sector, or indeed in any other sector, is an employee or a self-employed contractor. Under the eRCT system, on receipt of details of relevant contracts that are notified to Revenue in real time by principal contractors, Revenue immediately informs the relevant sub-contractors of those details. If any of the details notified to the sub-contractor are incorrect, or if the sub-contractor is of the view that he or she is not in fact a sub-contractor, then he or she can notify Revenue of those facts. A sub-contractor is fully entitled to clarify with the Revenue Commissioners any matters he or she is unsure about and, if in the course of this, the Revenue Commissioners form the view that a contract is in fact a contract of employment rather than a contract for a self-employed contractor, they will take such action as they deem appropriate to ensure that PAYE is operated.

For other sectors, such as the IT sector highlighted by the Deputy, where there is the use of intermediary type structures, these typically take the form of a personal services company, frequently with only one worker or, alternatively, a managed service company, which is generally

structured with at least six unconnected shareholders.

In some instances, the driver behind the use of intermediary type structures is the individual who has chosen to establish a corporate structure. However, many cases have come to light where it appears that end-users are insisting that if an individual wishes to be engaged by an end-user, he or she must establish a personal services company or be engaged via a managed service company. Intermediary type structures can pose a risk to the Exchequer in terms of different outcomes in respect of: employer's and employee's PRSI; indefinite deferral of the payment of part or all of the remuneration with a consequent deferral of payment of the associated tax and USC; payment of unwarranted tax-free expenses, different pension planning opportunities; and different tax planning opportunities. A consequence of the use of intermediary-type structures is that two individuals who perform the same services for an end-user could have different tax outcomes and different entitlements to social insurance benefits.

It must be recognised that the type of arrangements to which I refer may not be driven solely by tax considerations. From the end-user's point of view, there can be clear advantages in ensuring that individuals are not engaged as employees. A feature of these arrangements is that employer's PRSI is avoided. The consequences for the individuals who provide labour include the loss of rights to holiday pay, sick pay, maternity pay and employer pension contributions. In addition, they lose rights under employment protection legislation such as those relating to maternity and parental leave and unfair dismissal.

Due to the complex nature of the issues involved, my officials have been working on preparing a public consultation process and I understand a submission seeking my approval to proceed will reach me shortly. Such a process would allow all interested parties to feed into a broad-ranging consideration of the issues involved. Accordingly, I do not propose to accept these amendments. However, what I propose comes close to what the Deputy seeks.

Deputy Pearse Doherty: When will action be taken on this? A working group has been established with the Revenue Commissioners to look at whether the legislation is fit for purpose. Many Deputies have raised the issue of JJ Rhatigan, which has only recently been resolved. This issue did not appear last month. As the Minister indicated, there have been changes in how employment is now conducted with intermediaries and all the rest. However, bogus self-employment has been going on for the best part of a decade if not more. When will we see a deadline or the end of the road?

Deputy Michael Noonan: The Revenue Commissioners are acting on a day-by-day, case-by-case basis. As I said earlier, that includes examining returns but also site visits. There are other measures, including the dwelling house domestic extension scheme whereby all contractors had to be on the Revenue's website to legitimise the work for tax purposes and in respect of which 6,000 contractors registered. One can rest assured that they are legitimate. There are wider issues and as practices change and the building industry begins to grow again, there will certainly be a need for further action. I referred to the public consultation process we intend to carry out and I expect to receive a submission on that from my officials later this month, which means in the next two weeks.

Deputy Pearse Doherty: That is an intention to get to public consultation. When will the end of the process be? I presume something will be published when it concludes

Deputy Michael Noonan: That is correct.

Deputy Pearse Doherty: So we are getting to the point at which we want to be

Deputy Michael Noonan: We are not going to tell the Revenue Commissioners to do nothing until we conclude the public consultation process.

Deputy Pearse Doherty: I know that, obviously. However, this is to deal with the wider issues and the changes required to deal with them. Is that correct?

Deputy Michael Noonan: Yes. My note states that if anyone has specific information relating to individuals or business groups in any sector that are involved in tax evasion, he or she should send it to the Revenue Commissioners. The latter have provided a tailored template on their website to facilitate the reporting of tax evasion. The relevant links can be provided for the Deputy's information. The consultation will take three months.

Deputy Michael McGrath: This is a complex matter and there have been huge changes in terms of practices on the ground. Many principal contractors will not now allow workers or tradesmen to go on site unless they are registered under the RCT system. The days of being employed by a builder in the normal sense with a contract of employment are coming to an end, if they have not yet ended completely. It has very serious implications for the individuals concerned as the Minister outlined in terms of sick pay, holiday entitlement and an absence of PRSI returns being made for them. It is a serious issue for Revenue also because it increases the risk of tax revenue being lost.

I welcome the consultation exercise that is going to be undertaken. It should be advertised widely among stakeholders and ordinary workers who may not look out for these advertisements. We will all do our best to advertise and promote the consultation because people are certainly being taken advantage of. It is leading to a great deal of personal hardship for people who do not fully understand the tax system. They are going on site and building up tax liabilities themselves and are unaware of the fact that many benefits are being denied them on foot of their new status. This is an important issue and I welcome the Minister's initiative on it.

Deputy Michael Noonan: I thank the Deputy.

Amendment, by leave, withdrawn.

SECTION 24

Question proposed: "That section 24 stand part of the Bill".

Deputy Pearse Doherty: On the section, can the Minister outline the expected impact on jobs of this measure? Will it result in increased taxation? Has the position in this regard been quantified?

Deputy Michael Noonan: The section amends the definition of "collective investment undertaking" in section 734 to include an authorised Irish collective asset-management vehicle, or ICAV. The Irish Collective Asset-management Vehicle Act 2015 amended the definition of "investment undertaking" in section 739B of the Taxes Consolidation Act to include an authorised ICAV. However, for the purposes of the Ireland-USA double taxation treaty, the definition of "collective investment undertaking" is still relevant. In order to avoid any uncertainty as to the application of the Ireland-USA double taxation treaty to ICAVs, the definition of "collective investment undertaking" in section 734 is also being updated to encompass ICAVs.

Deputy Pearse Doherty: The question is on the change here. While the change is techni-

cal, it clarifies the issue in terms of residence for the purposes of the Irish-USA double taxation treaty. Has it been quantified? Does he believe this has been a barrier to these funds locating here? Is there any indication that the clarification provided by this amendment will lead to greater jobs and increased taxation as a result or is this something that was not really a block up until now but just needed to be clarified?

Deputy Michael Noonan: It simply needed to be clarified; it was not a big issue. The note I have says the Ireland-US tax treaty makes express reference to Irish regulated funds in the definition of who is a resident of Ireland in Article 4 of the treaty. The treaty provides that collective investment undertakings in Ireland are treated as residents of Ireland for treaty purposes. The funds industry has raised a concern that if the definition is not updated to include an Irish collective asset-management vehicle, ICAV, there may be some uncertainty as to the application of the Ireland-US tax treaty. As one of the main advantages in introducing the ICAV was that it would be more user friendly for the purposes of the check-the-box provisions of the US tax code, it has been deemed necessary to update the definition of “collective investment undertaking” to include ICAVs. This should enhance the attractiveness of the ICAV to investment managers seeking to market and invest their funds in the US.

Deputy Pearse Doherty: Who was raising the uncertainty? Was it Revenue or the funds industry?

Deputy Michael Noonan: The funds industry.

Question put and agreed to.

Amendment No. 41 not moved.

SECTION 25

Question proposed: “That section 25 stand part of the Bill.”

Deputy Pearse Doherty: Will the Minister outline the rationale behind this section? Where is the proposal coming from in terms of the enhanced industrial buildings allowances? Who is behind this section?

Deputy Michael Noonan: The section makes a number of changes to the scheme of accelerated industrial building allowances for certain specialist aviation service facilities which I introduced in Finance Act 2013. The scheme focuses on the construction and refurbishment of buildings and structures to be used for the maintenance, repair and overhaul of commercial aircraft and the dismantling of such aircraft for the purposes of salvaging or recycling parts or materials. The relief, which provides for a seven year write-off of this capital expenditure, will operate for five years and is subject to all the normal rules for capital allowances.

The first amendment is to section 268 of the Taxes Consolidation Act and is to restrict the amount of tax relief available so that the aid granted per project does not reach the *de minimis* limits set by the European Commission. The *de minimis* guidelines stipulate that the aid granted must not exceed the €200,000 limit over any three consecutive financial years. In order to ensure this level of aid is not breached, I have imposed a cap on the amount of expenditure that can qualify for tax relief at the accelerated rate provided for under the scheme. In the case of a company, this equates to overall construction expenditure of €5 million. In the case of an individual, the limit is €1.25 million of relevant expenditure. Restrictions regarding the location of qualifying airports that were inherent in the regional aid guidelines are also removed.

All airports in the State will now be in a position to avail of the scheme.

The second amendment is to section 272 of the Taxes Consolidation Act. Subsection (3)(k) is amended to reflect that during the first five years of the qualifying period capital expenditure that is subject to the *de minimis* limits, known as special capital expenditure in the amendment, will qualify for capital allowances at the accelerated rate, which is 15% over six years and 10% in the final year. All capital expenditure in excess of that limit will qualify for capital allowances at the normal rate of 4% over 25 years as will capital expenditure incurred after the five year qualifying period. Subsection (4)(k) is also amended and outlines the period within which the allowances can be transferred to a subsequent purchaser.

The third amendment is a technical amendment to section 274 of the Taxes Consolidation Act which outlines the period within which a balancing adjustment can apply.

The fourth amendment includes the relief in the high earners' restriction under Schedule 25B of the Taxes Consolidation Act.

The final two amendments relate to section 31 of the Finance Act 2013 and section 33 of the Finance Act 2014. Section 31 of the Finance Act 2013 introduced the scheme of accelerated capital allowances and section 33 of the Finance Act 2014 subsequently amended the scheme. These sections have now taken effect as and from 13 October 2015 by means of the financial resolution taken on budget night.

The sections were initially sought by the Shannon enablers group to assist with the development of Shannon Airport as a commercial centre for operations such as those described in the sections. Subsequently it was extended to all airports. There is a potential for significant job creation in the aviation sector in Ireland. By providing for this targeted incentive I hope to encourage the establishment of the necessary infrastructure to allow us to attract significant maintenance, repair, overhaul and dismantling activities to Ireland. This would foster the development of centres of excellence within this engineering sector which we can build on from the perspective of job creation in the future.

Deputy Pearse Doherty: The scheme was envisaged originally under the Finance Act 2013 but never materialised as a result of rules on state aid. There was quite a bit of argument or discussion or debate at the time that it should be extended, in particular, if memory serves me correctly, to benefit Ireland West Airport Knock. That was obviously not agreeable to the Government and the Minister at the time. The Minister mentioned that it is now available to all airports. Is it just available to airports?

Deputy Michael Noonan: It is just available to airports.

Deputy Pearse Doherty: Why the change of heart?

Deputy Michael Noonan: It proved difficult to get state aid agreement, as originally intended, under the state aid rules. The advice was that there were *de minimis* rules which would apply if the amount invested was below a certain level and that it would then not run foul of the rules. Having found a solution to the original problem, there was no reason to restrict it to certain airports.

Deputy Pearse Doherty: Were state aid rules the reason for restricting it to certain airports originally?

Deputy Michael Noonan: It is always possible to make the case that more deprived parts of the country are entitled to exceptions from state aid rules, which is the way we approached the scheme initially. The availability of tax relief under the scheme was made subject to a ministerial commencement order in the 2013 Finance Act to allow for the granting of state aid approval for the scheme by the EU Commission. Since then, Department of Finance officials have been in discussion with officials of the European Commission seeking that approval.

Having considered the scheme in detail and at length, and under a number of state aid guidelines, officials have finally agreed that, subject to limits on the amounts of qualifying expenditure, the scheme can qualify under EU state aid *de minimis* guidelines. Accordingly, the scheme has been amended to impose a limit on the amount of expenditure that qualifies for tax relief.

I am pleased to announce that the scheme commenced from budget night. The guidelines considered were general block exemption regulations, regional aid guidelines, guidelines on state aid to airports and airlines and the *de minimis* guidelines. Eventually the Commission agreed that if we approached it through the *de minimis* route, state aid considerations which were preventing its implementation would not arise and we could do it under that set of regulations.

Deputy Pearse Doherty: This is not intended as a reflection on any individual or group of individuals but an item was introduced in a Finance Bill two years ago which seems to have run foul of the state aid rules and has had to be altered. Given the type of investment involved, the potential jobs and so forth, how difficult is it, when one sits down to deal with a change in the taxation code, to see that it runs foul of state aid rules? Is there a section in the Department that deals with the issue? It is not the only time this issue has arisen. We have had similar issues within previous Finance Bills. The provision on the Georgian buildings is a case in point. It did not get the green light until a couple of Finance Bills later. If memory serves me correctly, it was the third Finance Bill. That case was similar to this one. What is the challenge? Is it that the goalposts are moving? Has something been read incorrectly?

Deputy Michael Noonan: The general challenge is that an incentive through the tax code which would be seen to favour either a geographical region or an individual sector would not be automatically given state aid approval. If we do something for the country as a whole, which is in accordance with law and practice, EU treaties and so on, it should not run foul of state aid rules. State aid rules come into play where one sector or a part of one sector is treated more favourably than another for one reason or another. This would also apply to an area of the country or, for instance, an airport west of the Shannon. There are two such airports: Shannon Airport and Ireland West Airport Knock. That would have to be referred-----

Deputy Pearse Doherty: I understand the state aid rules. My question, to put it bluntly, is: why did the Minister's Department not understand in 2013 that this measure was going to run foul of the rules?

Deputy Michael Noonan: Of course it did not know that.

Deputy Pearse Doherty: Was there any consultation? Is there a chance to have a consultation to get a feel for it if it is not that clear?

Deputy Michael Noonan: In my experience, the method adopted is that one decides the policy, includes it in a Finance Bill and indicates that there are state aid considerations. After the will of the Oireachtas is identified, one goes to the Commission to examine its attitude to the

policy. Of course one tries to tailor it in a way that is in accordance with state aid guidelines. The Commission needs to examine the legislation before it will consider it. The sequence is to decide the policy, draft the legislation and then submit it to Europe. The Commission can be quite slow because it has lots of applications from different parts of the Union. I am not saying it deliberately procrastinates, but one would get that impression at times.

Question put and agreed to.

Section 26 agreed to.

NEW SECTION

Deputy Pearse Doherty: I move amendment No. 42:

In page 40, between lines 6 and 7, to insert the following:

“**27.** The Minister shall, within nine months from the passing of this Act, prepare and lay before Dáil Éireann a report on options available to restrict banks from carrying forward losses against taxable profits of the banks, which could result in many institutions paying no tax for the foreseeable future. ”.

This amendment, if enacted, would provide that, within nine months of the passing of the Act, the Minister would prepare and lay before the Dáil a report on the options available to restrict banks from carrying forward losses against taxable profits of the banks, as this could result in many institutions paying no tax for the foreseeable future. These are profitable institutions. While we hold significant shareholdings in some of these institutions, that may not be the case in the next number of years. Is the Minister concerned about the massive losses accumulated by the banks which are available to write off against their profits in the future?

We can see from recent reports by Bank of Ireland and Allied Irish Banks that Bank of Ireland, as of the 2013 accounts, has €2.3 billion in deferred tax assets, while AIB has €3.36 billion, which, according to its annual report, will take 20 years to write down. Is this an issue that concerns the Minister and is it something he is willing to examine? Could we examine and report on this issue? A huge amount of losses are available to these two financial institutions, which are profitable at this point in time, to offset against profits for tax purposes in the future.

Deputy Michael Noonan: Section 396(1) of the Taxes Consolidation Act 1997 entitles companies to carry forward losses incurred in a trade for an accounting period for offset against income of the same trade for succeeding accounting periods. A restriction on losses was previously in place which limited the amount of prior-year losses that a NAMA-participating institution could offset against trading profits to 50% of trading profit for each accounting period. This restriction was introduced under the NAMA Act 2009, whereby a new section, section 396C, was inserted into the Taxes Consolidation Act 1997.

In the lead-up to the introduction of the new capital rules on 1 January 2014 under the capital requirements directive known as CRD IV, and at a time when the State owned 99.8% of AIB and 15% of Bank of Ireland, section 396C no longer served its original purpose and, indeed, was actually working against the State's investment in the banks. Accordingly, in section 33 of the Finance (No. 2) Bill 2013, I decided it was appropriate to remove the restriction on relief for losses in participating institutions with effect from accounting periods beginning on or after 1 January 2014. The Deputy will recall that we had a lengthy debate on the issue during Committee Stage of the Bill. While the profitability position of the banks may have changed since then, the merits of allowing the banks to utilise their losses still stand. The benefits to the State

of allowing banks to utilise their losses include improvement in capital ratios under the new capital standards. Under the new rules, deferred tax assets are to be fully deducted from capital over a phased ten-year horizon. The utilisation of deferred tax assets reduces their value on the banks' balance sheets and hence the deduction from capital becomes less important. The carrying value of deferred tax assets at AIB and BoI represent approximately 27% and 15% of shareholders' funds respectively. This is a much larger percentage than most other European banks. As such, our banks are more affected by the new capital rules than others.

Improving the existing value of the State's equity and debt investments is another advantage. With many investors valuing banks off the new more stringent capital rules, or what the markets call a fully loaded basis - that is, capital calculated with all the new CRD IV rules taken on board today rather than phased in over time - it stands to reason that if their capital levels benefit from the ability to utilise losses then the value of the bank's equity and debt instruments will too.

A third benefit is that the risk to the State, as backstop provider of capital, is also reduced. While the utilisation of losses may result in some banks not paying corporation tax, I introduced a financial institutions levy in 2013 which brings in approximately €150 million per annum for the period 2014 to 2016. As part of budget 2016, I announced my proposals to extend this levy to 2021, subject to a review of the methodology used to calculate the levy. This measure will bring in an additional €750 million over the period, which is a very significant additional contribution to the Exchequer.

As a consequence of those points, I will not be accepting the proposed amendment.

Deputy Pearse Doherty: I will press the amendment.

Chairman: In accordance with the Order of the Dáil of 12 November 2015, the division is postponed until completion of the proceedings on the matters to be dealt with in this session.

As the proceedings on sections 20 to 26, inclusive, have been completed, the postponed division on amendment No. 42 will now be taken. As there are fewer than nine members present, under Standing Orders we are obliged to wait eight minutes until a full membership is present before proceeding to take the division.

Question put.

The Committee divided: Tá;, 4; Níl, 7.	
Tá;	Níl;
Calleary, Dara.	Corcoran Kennedy, Marcella.
Cullinane, David.	Dowds, Robert.
Quinn, Feargal.	Harrington, Noel.
Tóibín, Peadar.	Kyne, Seán.
	Lawlor, Anthony.
	Mullins, Michael.
	Naughton, Hildegard.

Amendment declared lost.

Section 27 agreed to.

Progress reported; Committee to sit again.

The select sub-committee adjourned at 9.10 p.m. until 11 a.m. on Wednesday, 18 November 2015.