Congress Pre-Budget Submission
A Budget for Jobs, Homes & Investment

July 2015

JOBS
HOMES +
INVESTMENT

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

Contents

Key Points

Congress proposes a total of €2.15 billion in public spending and tax measures aimed at supporting economic recovery and restoring living standards for many vulnerable groups, including low and middle income workers.

Congress rejects the 50:50 split between public spending increases and tax cuts outlined in the government's Spring Statement and proposes a net fiscal adjustment of €1.5 billion.

A minimum of €650 million can be raised from various taxation reforms.

Congress is proposing funding for subsidised childcare.

We support equality-proofed reforms to the Universal Social Charge.

Many cuts can be reversed, including those to young people, pensioners and lone parents.

Welfare rates can be increased, under the Congress plan.

We propose the introduction of a net wealth tax and borrowing €1 billion for 'off-the-books' investment in capital projects.

Capital spending should be excluded from the rules governing the Stability & Growth Pact.

The fiscal rules are too restrictive, opaque and based on a flawed methodology.

The Congress proposals would protect the most vulnerable communities and individuals, while being supportive of jobs and growth.

1. Summary

support economic growth as well as social and economic equality and the protection of vulnerable households

The economy is now beginning to recover. However, many households are not yet seeing tangible improvements in their living standards. Deprivation levels have skyrocketed since the beginning of the crisis while over 200,000 people remain in unemployment. The economic recovery must be an inclusive one that benefits everyone in society. We cannot leave behind vulnerable individuals, households and communities. After years of sharp reductions in government spending the nascent recovery comes with key public services stretched, state-sponsored family supports diminished and core welfare rates cut.

It is in this context that Congress is making a series of proposals for Budget 2016 that are cumulatively intended to support economic growth as well as social and economic equality and the protection of vulnerable households.

Congress rejects the 50:50 split between public spending increases and tax cuts as described in the government's Spring Economic Statement. Such an adjustment implies intense pressures on key public services such as health and education.

Congress is proposing €2.15 billion in public spending (€1.43 billion) and tax (€720 million) measures aimed at supporting economic recovery and restoring living standards for many vulnerable groups, including low and middle income workers.

Congress is also proposing to raise a minimum of €650 million from various reforms to taxation.

Thus the proposed fiscal adjustment in net terms is €1.5 billion.

This adjustment is consistent with the Government's Spring Economic Statement, which states that €1.5 billion of fiscal space is available in Budget 2016.

The proposed measures include funding for subsidised childcare as part of an enhanced social wage; equality proofed reforms to the Universal Social Charge; the reversal of many of the austerity cuts including those to young people, pensioners and lone parents; increases in welfare rates; reforms to capital taxation and tax expenditures, and the introduction of a net wealth tax.

In addition, Congress proposes that €1 billion should be borrowed for off-the-books investment in capital projects in 2016. Financing investment can be centralised and leveraged through an independent strategic investment bank or fund.

Congress also proposes that public capital investment should be gradually raised to 4% of GDP over the course of the next three to five years.

Congress takes the view that capital spending should be excluded from the rules governing the Stability & Growth Pact. This is because capital spending boosts the productive capacity of the economy. Ireland's extremely low level of public investment is a drag on employment and the economy's potential output. It is counterproductive and perverse for the fiscal rules to actually work against having a sustainable level of investment in the economy.

The fiscal rules as constructed are too restrictive, are opaque and are based on a flawed methodology for estimating the structural deficits and therefore for calculating the permitted annual increase in public spending. This is deleterious to good policy making.

The Congress proposals for Budget 2016 would protect the most vulnerable communities and individuals in Irish society while being supportive of jobs and growth. It is a budget for jobs, homes and investment.

Congress proposals for Budget 2016 would protect the most vulnerable… while being supportive of jobs and growth

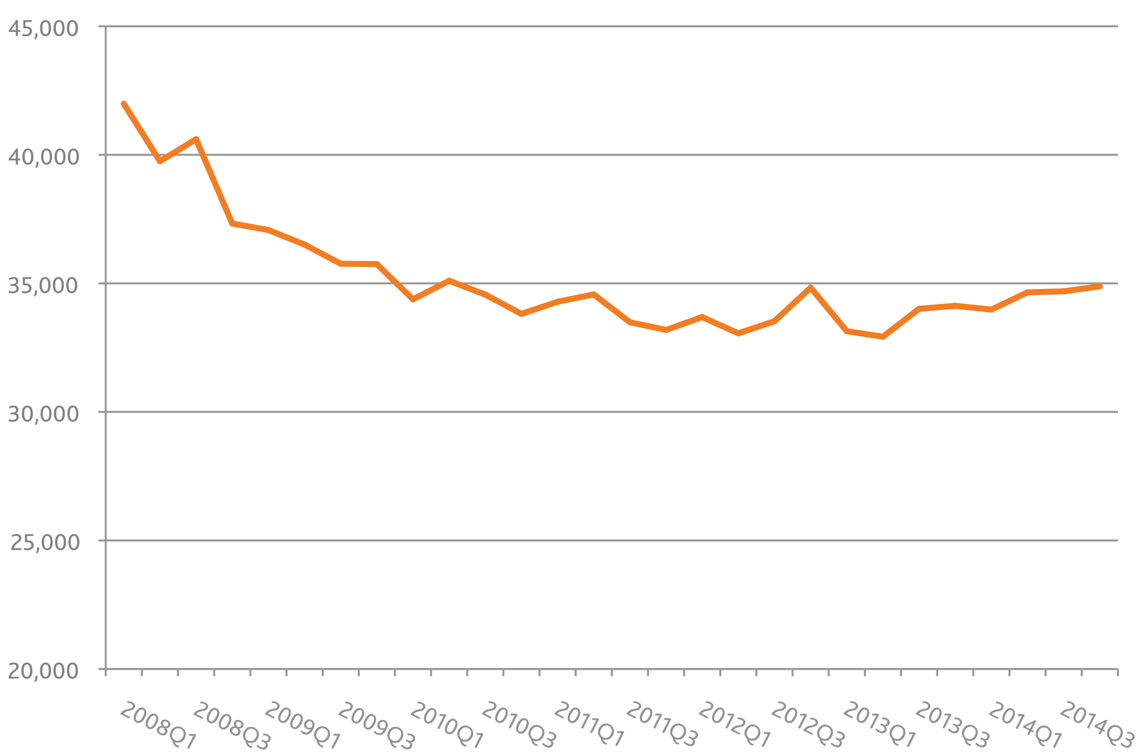
2. Economic Context

domestic demand remains well below pre-crisis levels

Numerous scars remain from the economic crash. Ireland's employment rate is still a long way below pre-crisis levels and has been below the Euro area average since 2009. Total employment in the first quarter of 2015 was 1,929,500. This is 216,900 less than the number of people employed during the first quarter of 2008.

However, the economy expanded strongly in 2014 growing by 4.8% in real terms. Investment grew particularly strongly in 2014, albeit from a very low base as a proportion of the size of the economy. A recovery in consumer spending appears to be taking hold after years of decline and stagnation. Despite these improvements data from the Central Statistics Office shows that domestic demand remains well below pre-crisis levels (Figure 1).

Figure 1: Quarterly Trends in the value of Domestic Demand, 2008 to 2014 (€ millions) ***(constant 2012 prices)***



The Nevin Economic Research Institute (NERI) anticipates that the Irish economy could grow at a reasonably fast rate over the next few years. The Institute forecasts growth of 3.7% in 2015, 3.5% in 2016 and 3.1% in 2017 (Table 1). In addition, the Institute expects that unemployment will continue to fall. It projects that by mid-2016 the number of people unemployed will have fallen below 200,000 and that by end-2016 the number of persons employed will exceed 2 million.

NERI projects that consumption will continue its recovery, driven by rising real disposable income, improving household balance sheets and a strengthening labour market. The improving economy will, in turn, boost the health of the public finances.

A negative outcome to the Greek crisis… could undermine faith in the European project

Table 1: NERI Projections for Real Economic Growth and the Labour Market, *(% change over previous year)*

	2015	2016	2017
Gross Domestic Product	3.7	3.5	3.1
Personal Consumption	2.2	2.0	2.1
Government Consumption	1.1	1.6	1.3
Investment	10.0	8.7	7.4
Exports	5.5	4.2	4.1
Imports	5.8	4.3	4.4
Employment *(level of)*	2.2	1.9	1.7
Unemployment *(percentage of labour force)*	9.7	8.9	8.5

There are a number of potential storm clouds. A negative outcome to the Greek crisis is particularly concerning as it could undermine faith in the European project, unleash contagion effects across the continent, push bond yields higher and create financial market instability. There are other risks including the possibility of a 'Brexit', a slowdown in world trade and shifts in interest rates, energy prices and the exchange rate amongst others.

3. Public Finances

Government revenue is already the third lowest in the entire EU

NERI is projecting that the general government deficit will be close to 2.4% of GDP in 2015 and 1.8% of GDP in 2016. This estimate is based on an assumed expansionary fiscal package of €1.2 billion in Budget 2016. The Nevin Institute expects the deficit will be close to €4.5 billion in 2015 and €3.5 billion in 2016.

A €1.5 billion budgetary package - as proposed by Congress - would produce an estimated public deficit of less than 2% of GDP. Ireland's general government debt ratio is still very high and is currently the fourth highest in the EU in GDP terms (Figure 2).

The IMF projects the deficit will be eliminated by 2018 on a no policy change basis, and that by the end of the decade Ireland will have one of the lowest levels of spending and taxation in the European Union (EU) measured as a proportion of economic output (Table 2), and extremely low levels in GDP terms compared to the EU average. Government revenue is already the third lowest in the entire EU (Figure 3) and has been consistently below the EU average (Figure 4).

Ireland is manifestly a low tax economy.

Congress rejects the 50:50 split between public spending increases and tax cuts as described in the Government's Spring Economic Statement. Such an adjustment implies intense pressures on key public services such as health and education. Indeed the government's own projections show the level of 'primary expenditure' as a percentage of GDP (the total less interest payments) falling from 35% of GDP in 2014 to just 28.3% of GDP in 2019 – while revenue will continue to fall in GDP terms over the period.

Given the continuous year-on-year pressures arising from demographic changes and other cost pressures it is clear that the current projections imply a conscious strategy of running down public spending over the next five years to the detriment of the quality of education and health services, as well as to the detriment of other public services. Congress does not support this strategy.

In addition, public capital spending is approximately half the optimal level for a growing economy. Much greater resources will be needed for capital spending in the future to ensure growth can be sustained into the future.

Congress acknowledges that the government is constrained in its ambition in Budget 2016 by the requirement to make sufficient progress towards Ireland's Medium-Term Budgetary Objective (MTO). Progress in this regard is ensured through adherence to the structural balance rule and the expenditure benchmark rule. The implication for Budget 2016 is that Ireland's permitted expenditure growth is limited to a little over €1 billion in 2016. This amount can only be increased if new measures are introduced that permanently increase annual government revenue. Similarly, if new tax cuts are introduced in Budget 2016 this will reduce the amount of money available for public spending on a one for one basis.

The government has stated it will pursue a net fiscal package worth €1.2 billion to €1.5 billion in Budget 2016. Our proposals are framed by these parameters.

Finally, Congress does not believe that the European Commission's estimate for the structural balance is plausible. The Commission estimate implies that the Irish economy was overheating in 2014. However, NERI points to our still high unemployment rate, large trade surplus, and low inflationary pressure – all of which suggests the economy is still operating below its potential. The Commission methodology appears flawed and their estimate for the structural balance appears unreasonable. If this analysis is correct, it means there may be more scope for increasing public spending in future budgets.

Table 2: Government Revenue and Expenditure: IMF Projections, (% of GDP)

	2014	2015	2016	2017	2018	2019
Revenue						
Ireland (GDP)	34.7	33.7	33.1	32.4	31.7	31.3
Ireland (GNP)		*39.4*	*39.1*	*38.6*	*38.4*	*38.2*
Ireland (Fiscal Council Hybrid measure)		*37.0*	*36.5*	*35.9*	*35.3*	*35.1*
Euro area (GDP)	46.7	46.5	46.4	46.4	46.4	46.4
Expenditure						
Ireland (GDP)	38.5	36.1	34.5	33.0	31.7	31.3
Ireland (GNP)		*42.4*	*40.8*	*39.4*	*38.3*	*38.2*
Ireland (Fiscal Council Hybrid measure)		*39.6*	*38.0*	*36.6*	*35.3*	*35.1*
Euro area	49.4	48.7	48.1	47.7	47.3	46.9

Figure 2: General Government Gross Debt in Ireland and the EU, 2014, (% of GDP)

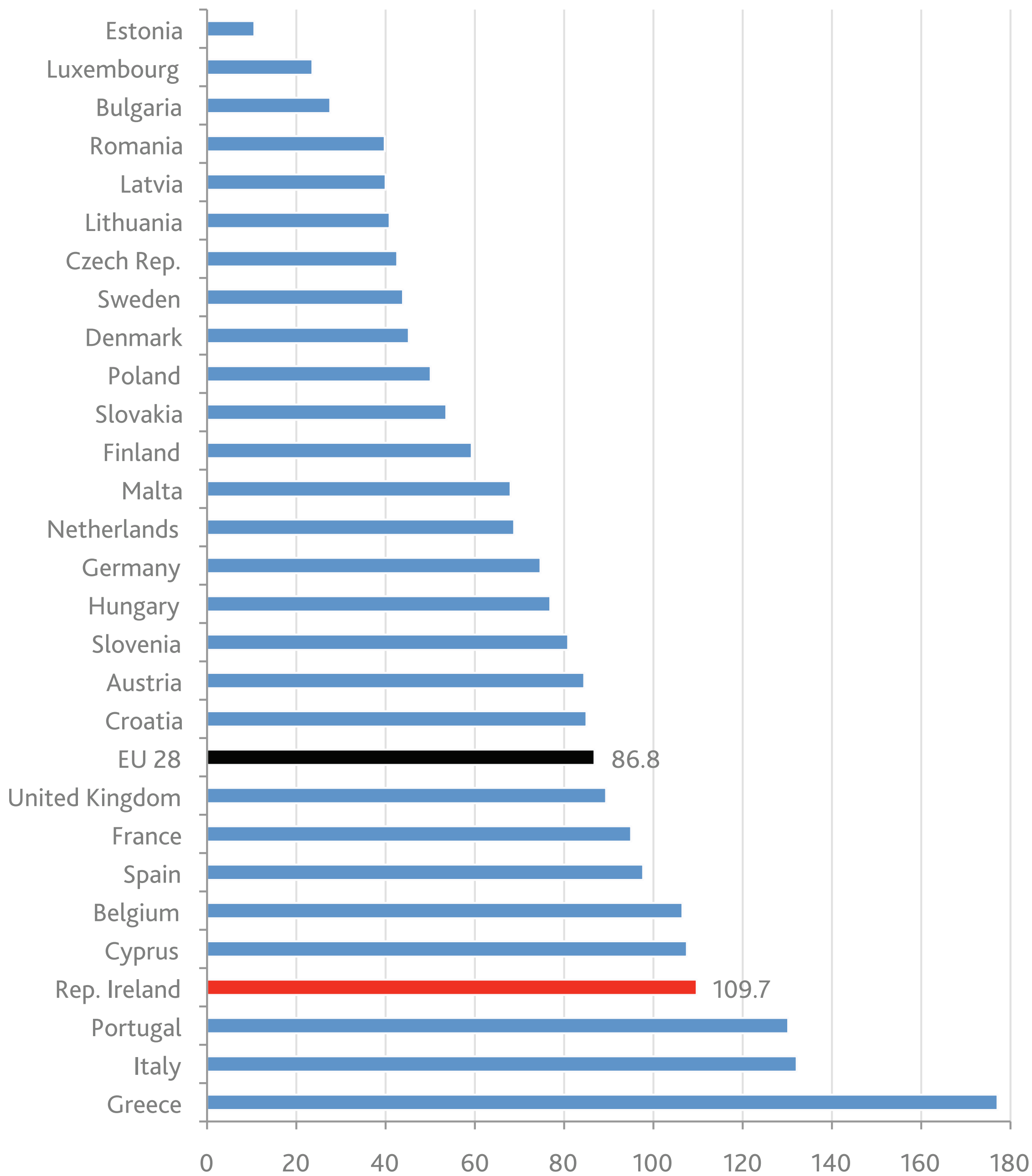
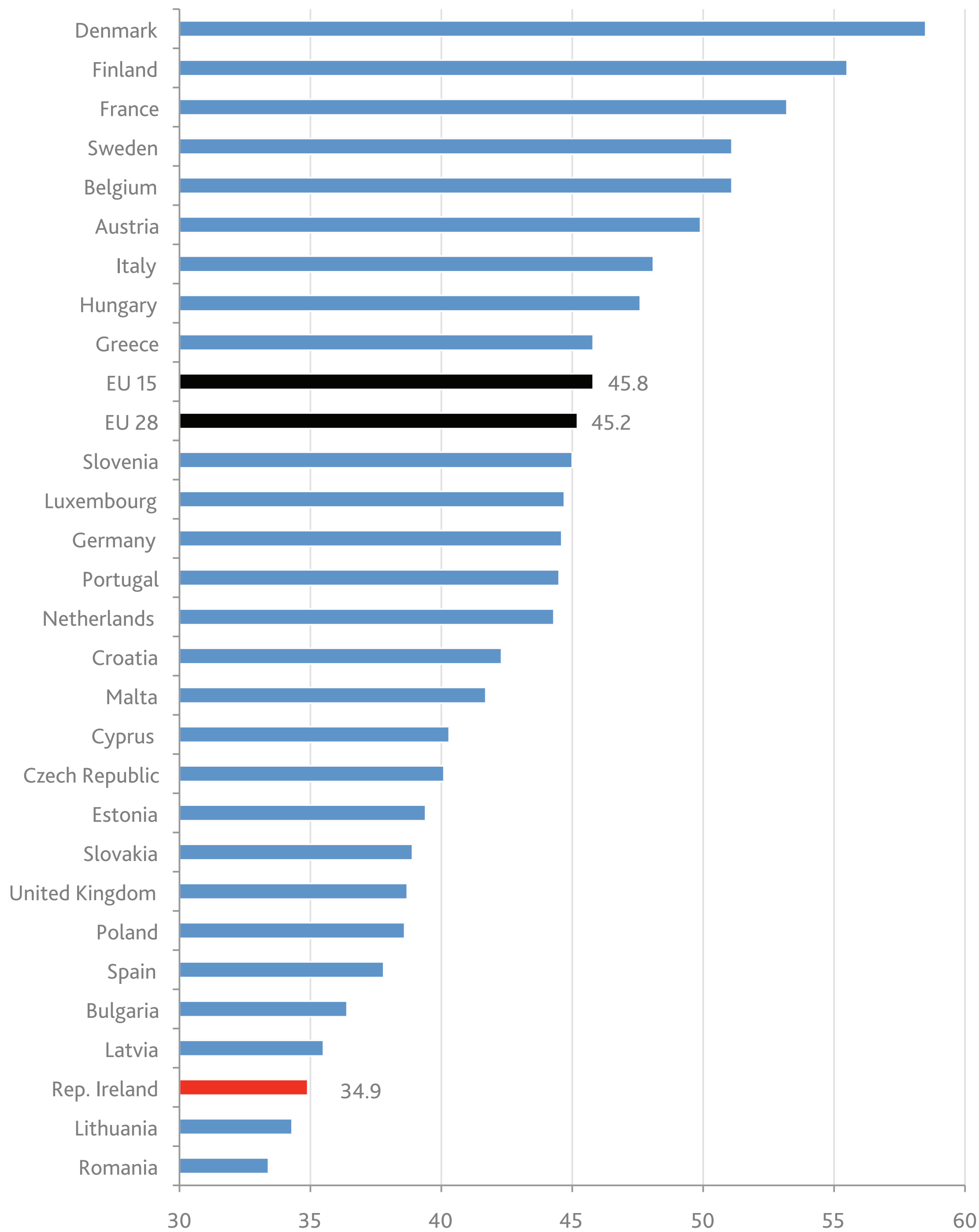
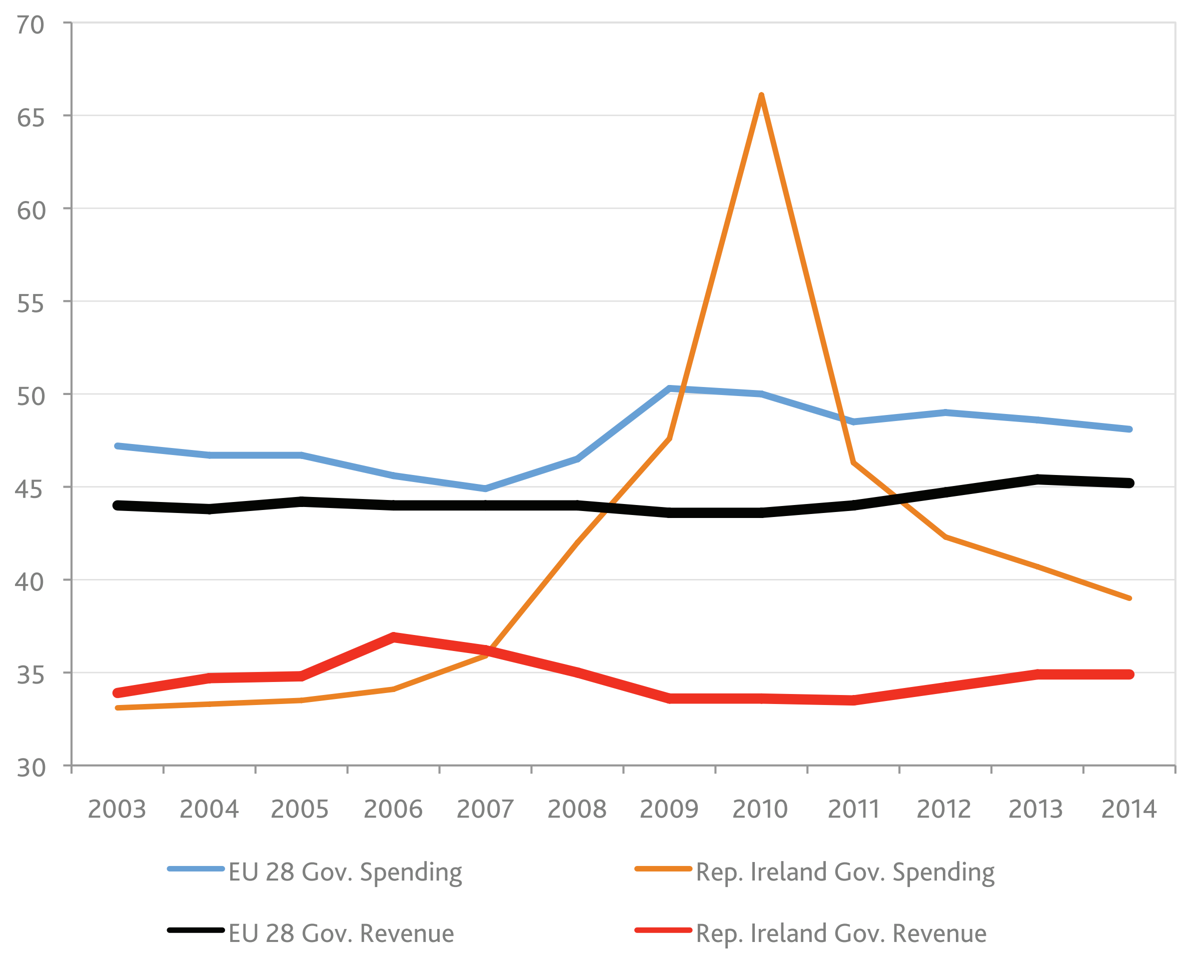


Figure 3: General Government Revenue in Ireland and the EU, 2014, (% of GDP)



Congress does not believe that the European Commission's estimate for the structural balance is plausible

Figure 4: Trends in Government Spending and Revenue, 2013-2014, (% of GDP)



4. Budget Proposals

Congress proposals for Budget 2016 are described in Table 3 below. Congress proposes €2.15 billion in public spending (€1.43 billion) and tax measures (€720 million) aimed at supporting economic recovery, and restoring living standards for many vulnerable groups including low and middle income workers.

Congress also proposes raising a minimum of €650 million from various reforms to taxation. Thus the proposed fiscal adjustment (net) is €1.5 billion. This is in line with the government's Spring Economic Statement which states that €1.5 billion of fiscal space is available in Budget 2016.

In addition, Congress proposes that €1 billion should be borrowed for off-the-books investment in capital projects in 2016. Financing investment can be centralised and leveraged through an independent strategic investment bank or fund. Congress also proposes that public capital investment be gradually raised to 4% of GDP over the course of the next five years. Congress takes the view that capital spending should be excluded from the rules governing the Stability & Growth Pact. This is because capital spending actually boosts the productive capacity of the economy and it is counterproductive for the fiscal rules to work against having a sustainable level of investment in the economy.

Congress is critical of the way in which the expenditure benchmark is constructed. The current methodology is overly complex and opaque. This stifles public debate about budgetary policy. Congress also takes the view that the existing rules are far too restrictive and notes that permitted expenditure growth is derived from European Commission estimates of the structural budget balance that are rooted in a deeply flawed methodology and that lack any objective credibility.

the proposed fiscal adjustment (net) is €1.5 billion

Table 3: Breakdown of Congress proposals for Budget 2016* (€ millions)

A Income Tax cuts	Cost
Introduce a system of refundable tax credits to benefit low income workers	140
Reform the PRSI step-effect	50
Equality proofed reforms to the USC	300
Budget 2015 carryover	230
Gross Cost	720
B Spending Increases	**Cost**
Increase all welfare payment rates by 1.5 per cent	275
Demographic pressures	300
Public service pay and pensions	300
Re-instate the standard Jobseekers Allowance rates for those less than 26 years of age	140
Childcare infrastructure (publically funded childcare)	150
Supports for lone parents	75
Re-establish access to the full state pension for workers contractually obliged to retire aged 65	10
Budget 2015 carryover	80
Increase the Overseas Development Aid budget to approach UN target	100
Gross Cost	1,430
C Tax increases	**Yield**
Improving tax compliance	100
Reforming employers PRSI	150
Reforming tax reliefs	100
Reforming capital taxes	50
Introduce a Net wealth tax	200
Other taxation reforms	50
Gross Benefit	650
D = A+B-C Net Positive Fiscal Adjustment	1,500

*The costings cited are based on various research papers (NERI, TASC, Social Justice Ireland, and ESRI) and responses to parliamentary questions. In addition, it is proposed that an additional €500 million in off-books capital investment should be allocated for social housing and a further €500 million in off-books capital investment allocated for capital projects with a commercial return.

4.1 Spending Proposals

Public Services & the Social Wage

After years of sharp reductions in government spending the nascent recovery comes with key public services stretched, state-sponsored family supports diminished and core welfare rates cut for those under 26. The lack of public capital investment around the country has deprived a large section of the population of secure, affordable housing while generating numerous other infrastructure deficits.

Enhancing the non-pay returns to workers - the Social Wage - involves improving standards of living through increased state support for households via transfer payments and expanded public services.

The Social Wage can take a number of forms e.g. through expanded public provision of childcare services, state provided illness benefit, or enhanced support during periods of unemployment. It offers the prospect of improved access to education and healthcare services regardless of ability to pay, while allowing the state to make job creating investments in infrastructure and enterprise.

Ireland is a rich country. Yet many households live in consistent poverty

Public goods and services are particularly significant for the living standards of low-to-middle income households. Successive budgetary adjustments made during the years of austerity favoured spending cuts over revenue raising measures: every €1 raised through taxation was accompanied by a €2 reduction in public spending. As the UN Committee on Economic, Social & Cultural Rights has pointed out, this 2:1 split meant that vulnerable groups in society experienced a disproportionately large reduction in living standards from the budgetary decisions taken compared to higher income households.

Ireland is a rich country. Yet many households live in consistent poverty and deprivation. Enhancing public services and restoring transfer payments should be a priority as the economic recovery starts to take hold – failure to prioritise these areas in Budget 2016 will further entrench poverty and deprivation for the most vulnerable members and groups within our shared community.

Access to the full State Pension

The Social Welfare and Pensions Act, 2011 established a schedule for increasing the starting age for the state pension to 68 years by 2028. As part of the reforms established under this Act, the state pension (transition)—paid to people aged 65 who retired from work with enough social insurance contributions—was restricted for new claimants from 1 January 2014 with payments under this scheme ceasing entirely from the start of this year. Workers contractually obliged to retire aged 65 now avail of a Jobseeker's payment until they qualify for the full pension aged 66. The loss of income varies depending on household composition and annual average social contributions made over the course of an individual's working life.

The disjuncture between the qualifying age for the state pension and the age a worker must retire places a significant, unavoidable financial burden on those affected. The difference in the core rate ranges between €8 and € 41.30 per week. In the case of a single worker entitled to a full contributory payment, the loss of income as a consequence of the change amounts to just under €2,200 per annum. **Budget 2016 should allow**

the fiscal space to address this unavoidable income reduction for workers entering retirement.

Given the relatively small number of people impacted by this anomaly at present, we estimate a cost of no more than €10 million to address this issue. Looking beyond Budget 2016, issues regarding the disjoint between mandatory retirement ages and state pension entitlements need to be addressed.

Re-instate the Standard Jobseekers Allowance for those under 26

Budget 2014 built on a previous decision to reduce the rate of Jobseekers' Allowance payable to people less than 26 years of age. The changes reduced the core rate by 30% for new entrants aged 22-24 and by 23% for those aged 25. The measure was presented as a way of preventing long-term welfare dependency by incentivising young jobseekers to avail of education and training opportunities. The policy was based on the highly contentious idea that young people are particularly prone to welfare dependency. In fact the policy simply increased hardship for this age cohort at a time when there were an inadequate number of jobs available for young people to move into.

Due to weak ties to the labour market and a concentration in vulnerable sectors like construction and retail, young people were more affected by the employment crises experienced during the recession than most others in society. The value of the new training and employment schemes aimed primarily at the young unemployed is questionable. **Budget 2016 should move to reinstate the standard Job Seekers Allowance rates for those under 26** years of age at a cost of approximately €140 million.

The value of the new training and employment schemes aimed primarily at the young unemployed is questionable

Childcare Infrastructure & Supports for Lone Parents

Under the Social Welfare and Pensions Act, 2012 the One Parent Family Payment (OFP) was reformed with the intention of closing off the possibility of lone parents remaining outside the workforce for a prolonged, indefinite period of time. Before the changes, lone parents could remain on the scheme until their youngest child turned 18, or 22 if their child remained in full-time education. Since the Act came into effect the qualifying maximum age limit on the scheme has been reduced on a phased basis to children aged 7 years old—excluding those in receipt of Domiciliary Care Allowance, the Blind Payment or Carer's Allowance. New welfare payment structures have been established for lone parents coming off the scheme, including the Jobseeker's Transition Payment and an automatic increase in Family Income Supplement for those lone parents that qualify for this payment.

Despite these measures, for many the changes place a significant financial burden on households that have experienced considerable reductions in income due to recent changes in the income disregard on weekly earnings, elimination of the half-rate payments available on a number of social insurance schemes, reductions in Child Benefit and diminished Back to School Clothing and Footwear Allowance.

Approximately 9,000 single parents have been removed from the scheme since the start of 2014 with 30,200 scheduled to transition off the OFP on July 2 this year. The weekly income change for those coming off the payment varies substantially owing to the different household compositions, primary economic activities and welfare entitlements. However, approximately one in three households will suffer an income loss due to the changes.

The majority of the households losing out as a result of the changes are those where the single parent is in work on a part-time basis, but fails to meet the qualifying criteria for Family Income Supplement — 19 paid hours per week, or 38 paid hours per fortnight. Inadequate hours of paid work (highlighting the importance of the measures contained in the Congress Charter for Fair Conditions at Work. See: http://www.ictu.ie/congresscharter), combined with the changes, will likely result in a substantial number of single parents exiting part-time employment, contrary to the stated intention of the reforms.

The issue is compounded by inadequate levels of public childcare provision placing further strain on household finances. With these issues in mind, **Congress proposes that Budget 2016 set €75 million aside to partially restore the weekly income of households** adversely affected by the changes to the One Parent Family Payment.

In addition, **Congress proposes funding of €150 million be obtained to expand on the public provision of suitable, publicly provided and subsidised childcare**. Enhancing the quality and coverage of public childcare services should be a central component of an increased social wage to workers. The €150 million for subsidised childcare should be funded through an increase in employer's PRSI on the portion of salaries in excess of €100,000.

Increase all Welfare Payment Rates

Congress proposes that **all welfare payment rates be increased by 1.5% in Budget 2016** in order to insulate the most vulnerable groups in Irish society against the effect of price increases in 2016. Recent research by the ESRI has shown that increasing all welfare payment rates by 1.5% would cost almost €275 million.

The proposed 1.5% increase in core welfare payments would likely represent a modest increase in real disposable income for workers and welfare recipients, given the current low level of inflation. Though the majority of core welfare rates have been maintained in recent years, changes to secondary benefits and eligibility criteria for various payments have resulted in a substantial reduction in household income, particularly for those near the bottom of the income distribution. A 1.5% increase in core welfare payments would be an initial step toward restoring living standards across society and ensuring the benefits of economic recovery are felt by the most vulnerable households.

The ESRI has shown that the percentage gains in disposable income associated with this measure are greatest for those in the bottom half of the income distribution and that households in the bottom three deciles would benefit the most and would experience an increase in disposable income of between 1.3 – 1.5%.

Demographic Pressure and the Public Service Pay Deal

Congress's spending proposals take account of the €300 million set aside to meet underlying demographic pressures as identified in the Department of Finance's Stability Programme Update for 2015. In addition, **Congress proposals take account of the €300 million increase in public spending required to meet the government's commitments to public sector pay restoration** in 2016.

Boosting Investment in Social & Affordable Housing

Construction sector activity has begun to rebound over the past two years. The volume of building of residential units reached a trough in the last quarter of 2012 but increased by 55 percent in the 24 months to final quarter 2014. Data from the opening three months of 2015 shows a 19.1% increase in employment in the construction sector in comparison to the same period in 2014. However, both in activity and employment, the recovery is coming from a very low base. Construction activity in relation to residential units is substantially down on the volume level prior to the recession and there are 153,000 people less employed in the sector compared with the peak employment level of 276,200 people reached in the second quarter of 2007.

Completions totalled 11,000 units in 2014, an increase of 33% versus 2013 levels, but well short of the estimated requirement of 25,000 units per annum. It is against this background of a shortage of supply—most acute in Dublin and the mid-east—that house prices and rents are increasing rapidly. On a national level rents rose by 6.9% in the first quarter of this year compared to the same three months in 2014.

On an annualised basis, residential properties prices increased by 13% in 2014, with strong price growth recorded so far in 2015. With wages only beginning to recover in many sections of the economy, strong price growth is putting home ownership out of reach for an increasing proportion of the population, while the number of people looking to avail of state supports to meet their housing needs has risen considerably over recent years.

Social housing policy must address the twin goals of making affordable and secure rental accommodation available to a significant share of the population, while increasing the stock of homes in well-designed, sustainable neighbourhoods available to those on lower incomes.

The waiting list for secure tenure social housing has tended upward since new forms of short-term, market-based housing supports were introduced and the construction of new houses became almost entirely dependent on private provision.

This long-standing problem was compounded by the dramatic decrease in public capital investment in social housing that began in 2008. This resulted in a very limited number of houses being built or purchased by local authorities. Between 2007 and 2014 the voted capital budget for social housing provision and regeneration decreased by 82%. Budget 2015 and the subsequent commitments laid out in the Social Housing Strategy 2020 reversed the trend in decreasing capital spending on social housing provision. While welcome, the scale of the shortage of supply and continuing acute affordability pressures experienced by many — documented by various non-government organisations — necessities a more ambitious programme of social housing provision. The traditional model of funding social housing through direct government investment is in need of reform. A new approach that takes account of the constraint on government borrowing and a commitment to continue to reduce the deficit over the coming years is required. The recent social housing strategy committed €400 million to a new housing finance entity. This entity should be structured as an off-the-books investment body responsible for the provision of social and affordable housing.

Congress is proposing this body be allocated **an additional €500 million of off-the-books funding in 2016 to help ensure an adequate supply of social and affordable homes** over the coming years.

Other Capital Projects

Public capital investment levels are perilously low and Congress proposes that **a target of 4% of GDP be set for public capital investment levels**. The government should seek to incrementally increase public capital investment levels each year for the next five years so that the 4% target is achieved by 2020 at the latest. Ireland's productive infrastructure already lags that of Western Europe in a number of respects. There are infrastructural needs in housing, telecoms, transport, energy, schools and sanitation to name just some areas. Congress proposes a €500 million increase in off-books capital spending in 2016 to be used on projects with a commercial return. The cost of borrowing is currently very low and financing investment can and should be centralised and leveraged through an independent strategic investment bank or fund.

4.2 Taxation Proposals

Our proposals on taxation both strengthen the tax base (increasing the revenue yield by €650 million) and include targeted income taxation reductions benefiting low and middle income workers and their families (costing up to €490 million in new measures). The proposals are summarised in Table 3 and outlined in further detail below.

Improving Tax Compliance

Congress notes the statement by the Revenue Commissioners that an allocation of €6.5 million to **increase audit, investigation and compliance** resources by 125 staff would yield an additional €100 million in taxation revenue. We support this proposal and believe these resources should be allocated as part of Budget 2016.

Reforming Employers' PRSI

Ireland's extremely low take from social contributions is wholly unsustainable in the long-term. Targeting employer PRSI contributions on just the portion of salaries above €100,000 will affect relatively few employments (circa 45,000) and would not affect the marginal tax rate on employee salaries. €150 million should be raised in this way in 2016. This could be achieved by **increasing the employer PRSI rate to 13.75% on incomes in excess of €100,000**. Much more substantial reform of social insurance is required in the longer-term.

The yield from this measure should be hypothecated (ring fenced) to a childcare fund and used to provide state subsidies for childcare. This is envisaged as the first phase of a long-term project to boost the social wage.

Reforming Tax Reliefs

Tax expenditures, which are analogous to government spending programmes and can carry large fiscal costs, tend to deliver larger benefits to higher income households. Reliefs allowing a tax deduction at the individual's marginal rate of income tax are more valuable to, and will disproportionately benefit, those with the highest income tax rates. Tax breaks and favourable tax treatment for non-productive assets such as houses and hotels distort investment away from more productive use and are therefore damaging to long-run growth. The distortion erodes allocative efficiency in the economy, is damaging to growth, and provides mechanisms for tax avoidance. Preferential treatment for certain classes of asset can also encourage asset price bubbles. **A minimum of €100 million can and should be raised in Budget 2016 through the reform of tax expenditures** with particular attention paid to those reliefs available at the marginal rate and the suite of reliefs structured as capital deductions.

Reforming Capital Taxes

Congress believes that Budget 2016 should **commence a process of reform of Ireland's capital taxes**, most notably capital acquisitions tax (CAT) and capital gains tax (CGT). For CAT, we suggest a further reduction in the thresholds and a reform of the structure of exemptions and thresholds in place for agricultural and business transfers. On CGT, we encourage government to further increase the rate so that is sits closer to the marginal income tax rate paid on earned income - in time this should reverse the reduction in CGT, from 40% to 20%, introduced in Budget 1998. We acknowledge that these reforms should be pursued over a series of Budgets, but believe that reforms yielding additional tax revenue of €50 million are feasible during 2016. Subsequent reform to capital taxation should yield significant additional revenue in years to come.

Introducing a Net Wealth Tax

During the past year a survey by the CSO and the Central Bank provided the first set of comprehensive data on net wealth in Ireland. The results of the Household Finance and Consumption Survey found that the overall level of household net wealth in Ireland amounts to €378 billion – a figure that is likely to be conservative given the potential for underreporting. The CSO's net wealth measure includes the value of all assets (housing, land, investments, valuables, savings and private pensions) and removes any borrowings (mortgages, loans, credit card debt etc.) to give an informative picture of household wealth. On average the results imply that Irish households have an average net wealth of almost €225,000. However the distribution is far from even with net wealth heavily concentrated at the top of the distribution.

As part of Budget 2016 Congress proposes that government introduce a small and recurring net wealth tax. **The tax should be focused on those households with net assets in excess of €1 million** and it should aim to collect €210 million in revenue during 2016. As part of this revenue will be consumed by the year one administrative costs of establishing this tax (we anticipate up to €10 million), we anticipate a net yield of €200 million during 2016.

Other Taxation Measures

We propose a series of additional taxation measures which are both focused on reforms to the taxation system and behavioural taxes focuses on improving the general well-being of Irish society. We suggest a net yield of €50 million should be obtained from these reforms in 2016.

- Congress believes that further reforms to **online betting taxes** should be introduced as part of Budget 2016.
- Congress supports the **introduction of a vacant site levy** which falls on the owners of residential zoned land which is not being developed. We welcome the recent consultation by the Department of Finance on this issue and believe that Budget 2016 should introduce this levy at a rate of 3% of the value of the land; the rate should increase further, to 6%, for land left vacant for a number of years.
- As the OECD's BEPS process continues, Congress believes that Budget 2016 should signal that Ireland will take sufficient steps to **reform its corporate tax system** in order to ensure the Irish tax regime does not facilitate aggressive tax avoidance by multinationals and that its regime does not generate negative tax 'spillovers' for other countries, particularly countries in the global south. The Budget should signal government's commitment to reforms that will ensure that Ireland is beyond reproach on the issue of global tax avoidance by ending all existing schemes that facilitate such anti-social behaviour and by introducing new financial transparency measures including country by country reporting for multinationals.

Refundable Tax Credits

Tax credits reduce the income tax liability of most workers. However, their impact is limited in the case of some low income workers who do not earn sufficient income to generate enough of a tax liability to absorb these credits. Taking both the PAYE and personal tax credit, this is the case for single workers earning less than €16,500, couples (1 earner) earning less than €28,500 and couples (2 earners) earning less than €33,000.

The introduction of a **targeted system of refundable tax credits** would address this issue. Where workers do not earn enough income in a year to absorb their income tax credits, the unused portion of the payment would be refunded to them. The system could be designed to ensure recipients were genuinely active throughout the year in the labour market (linking it to the PRSI system).

A study undertaken in 2010 for Social Justice Ireland identified that 130,000 low-income workers and their families would benefit from the introduction of a refundable tax credit system. The proposal only applied to the unused portions of the PAYE and personal tax credits. This reform would cost €140m if introduced in Budget 2016.

Reforming PRSI step-effects

The current structure of the PRSI system means that both employees and employers face a 'step-effect' which we suggest should be reformed in Budget 2016.

Employees with an income of less than €352 per week are exempt from PRSI, however once income increases beyond this level, they are required to pay employee PRSI at a rate of 4 per cent on all their income. The consequence of this structure is that an employee with an income of €352 per week and working across the year (annual income of €18,304) makes a total tax and PRSI contribution of €786.68 per annum whereas a similar employee earning €10 more per week (€363 per week, €18,876 per annum) pays an additional €755.04 in employee PRSI (total contribution of €1,696.16). In post-tax and PRSI take home pay terms, low paid employees below the €352 threshold face a disincentive to work additional hours, take on overtime or seek a pay increase. An employee's weekly income must increase from €352 to €373 before they are better off in net income terms.

The disincentive to increase wages is further compounded by the structure of employers PRSI. Specifically, once an employee's weekly income exceeds €356, employers PRSI increases from 8.5 per cent to 10.75 per cent on all income. Consequently, a small increase in employee earnings carries a proportionately larger cost for the employer.

Taken together, these PRSI structures represent an anomaly in the social insurance system and Congress suggests that this be addressed as part of Budget 2016. A research paper by TASC proposed a solution via **the introduction of a PRSI refund scheme**. With a maximum annual cost of almost €50 million they identified that the reform would benefit 122,000 low-income tax units.

Reforming the Universal Social Charge

Congress proposes that Budget 2016 should implement a targeted and progressive reform to the Universal Social Change (USC). It is proposed that €300 million should be allocated for this purpose as part of Budget 2016. It is crucial that any reforms to the USC are carefully equality proofed and that higher earners do not benefit disproportionatly. Congress proposes that a USC credit be introduced for all individuals with an income of less than €70,044. The value of the credit would be set at a level consistent with a full year cost to the exchequer of €300 million. This means the value of the credit would be worth close to €200 for an individual. The gain as a percentage of gross income would be largest for those on lower incomes. It is proposed that individuals earning €70,044 or more should not benefit from the introduction of the USC credit. This could be achieved by introducing an offsetting charge of equivalent value to the USC credit. All individuals with income in excess of €70,043.99 would be liable for the offsetting charge.

4.3 Other Issues

The Greek Crisis

In addition to the measures proposed in this submission Congress is proposing the following measures of solidarity with the Greek people, in the interest of human rights, and a successfully functioning regime of debt resolution mechanisms:

- A European debt conference to agree on meaningful debt restructuring and writedown for Greece and other countries that need it, informed by debt audits and funded by recovering money from the banks and financial speculators who were the real beneficiaries of bailouts. Debt restructuring must be sufficient to guarantee debt sustainability.
- An end to the enforcing of austerity policies that are causing injustice and poverty in Europe and across the world.
- **The creation of UN rules to deal with government debt crises promptly**, fairly and with respect for human rights, and to signal to the banks and financiers that we won't keep bailing them out for reckless lending.

Investing in Health

23 per cent of all Irish adults have neither medical cards nor health insurance to help them meet health care costs. This includes 30 per cent of adults in employment. This and the aging population poses a very real healthcare funding challenge.

The funding of Irish health care has dropped below the OECD average 10 per cent of GDP and spending is now lower in Ireland than in the UK and other EU countries. Real investment equal to at least 10 per cent of GDP must be guaranteed on an ongoing basis for the Irish public health services. This should be protected from political flux and government change.

Funding from taxation on cigarettes and alcohol must be considered as part of the income generating taxation system for this cost and should be hypothecated (ring fenced) for funding in the public health services.

Student Service Charges on Apprentices

Congress proposes reversing measures announced in Budget 2014 that resulted in Solas ceasing payment to the Institutes of Technology to cover student service charges for apprentices attending off-the-job technical training. This has imposed severe financial pressure on apprentices with their charges increasing from €210 to €833 per term, or up to €2,000 depending on the type of apprenticeship.

The National Training Fund was allocated €362 million in Budget 2014. The introduction of student service fees saved €1.6 million; a small saving that placed a significant financial burden on apprentices. In many cases apprentices cannot afford the fees, leading to exam results being withheld and apprentices unable to attain the National Craft Certificate. The upcoming budget should re-establish these payments at the level set prior to the changes announced in Budget 2014.

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