

# **Irish Congress of Trade Unions**

**Submission  
to the  
Commission on Taxation**

**May 2008**

## **Introduction**

The Irish Congress of Trade Unions is the largest civil society organisation in Ireland with some 830,000 members across the island. It is one of the social partners in a country where social partnership has been regarded as an important consensual way of doing business in the state for 21 years. Our chief aim is to improve the working lives and conditions of all members, while also helping to improve the quality of life enjoyed in wider society. Thus the work of the Commission on Taxation, which can deeply influence economic and social affairs of the nation for some time, is very important to Congress, its members and all employees in Ireland.

## **The Principles and Philosophy underlying Taxation**

The Irish Congress of Trade Unions believes that the Commission on Taxation should be guided by a number of key principles and grounded in the concept of equity.

Firstly, the government and the social partners now fully accept that economic and social concerns must have parity in policy decisions: so too should tax equity have parity with any economic/incentive objectives of taxation policy.

Secondly, the Commission's recommendations should seek to establish that income from all sources be taxed in the same way, in so far as is feasible. The current system taxes income from work and enterprise at much higher levels than from gains, from speculation, from inheritances, from capital etc. If the Commission were to advocate such reform, it would imply a very radical change in Irish taxation, making it much fairer.

A third key principle/objective of taxation is to encourage preferred economic activity. While this principle can conflict with other principles, the instruments may be blunt or poorly structured in the first place. The Commission should understand that many tax incentives often become diffused, multiply and thus become ineffective and costly, too often negating the originally intended effects. Thus all tax incentives should, as advised to government by its external advisors, (*and ignored*), be subject to full economic assessment as to intended effects and their cost, prior to their establishment and then such schemes should run only for a limited period. Congress would add that

the impact of all tax incentives should also be assessed as to their impact in terms of equity and fairness, as under the first principle.

The fourth principle of taxation - that of tax adequacy - appears to have been ruled out of consideration by one of the Minister's terms of reference (specifying low taxes and thus low public spending). Further, the use of a pejorative term to describe taxation in the terms of reference is very regrettable. To describe taxation, which is the money use to pay for public services, as "*a burden*" in the terms of reference demonstrates a strong ideological perspective. It logically follows, therefore, that all public servants, who are paid from the tax 'burden' must themselves be a burden on civil society.

Congress rejects this paradigm. We regard taxation as the legitimate way of funding public services. This has been the case here and internationally and for a very long time. If some public spending is ineffective, that is a totally different matter from the business of taxation for funding public services.

There could be difficulty in maintaining public services in a lower growth economy which means low tax revenue growth, in the absence of additional revenue raising instruments. The Commission could however, seek to maintain relatively low tax rates if it sought to broaden the base with the elimination of many tax breaks, exemptions etc. particularly those which are regressive, i.e. benefit the rich and allow so many high income earners and wealthy to minimise their taxes.

The principle of simplicity is one that should not be neglected and as tax rates have been reduced, so too all should exemptions and allowances be examined in depth and many closed off, leading to greater simplicity with nominal and effective rates closing together. There has been some progress in achieving this.

Clearly, in the case of the sixth principle, that of neutrality, there is natural tension deriving from this imperative and from the requirement to create tax incentives (this is also true, but to a lesser extent with the principle of equity), but is one which should be pursued.

The taxation of savings and taxation over the lifecycle also present difficulties which the Commission needs to address.

Finally, Congress urges the Commission to take a creative, long-term view of the rate of Corporation Tax (and its base) in the context the European Union's single market, from an international rather than the dominant chauvinistic perspective, although Congress recognises that it is constrained by the terms of reference.

### **Caveats on the Terms of Reference**

The Irish Congress of Trade Unions is seriously concerned that a number of the terms of reference would appear to seriously constrain the work of the Commission on Taxation. These implicitly biased terms of reference were set out by the Minister of Finance, without any consultation with the social partners, or other interested parties. Thus, as we have already touched on, the characterisation of taxation as a 'burden' betrays a rather damaging ideological mindset. Congress believes that a number of these terms of reference are contrary to what a fair-minded citizen would define as the common good.

The first objective of the Commission is *to keep the overall tax burden low*. It must therefore follow that the overall level of public spending must be kept low, *ceteris paribus*. While Ireland reduced its public spending as a percentage of GDP from the average of the EU15 in the 1980s and early 1990s, to close to 50 percent below that of the US, due to spectacular economic growth, it is rising again and is now around 36 percent of GNP. Many Irish citizens and citizens' groups, including Congress, believe that many of the calls for increased public services in Ireland are strongly justified. To fund modern European public services requires money and more money than is being spent at present. Thus this specific term of reference is a major constraint on improving public services and public provision, including health, education and welfare.

The only exception to this objective of low tax / low public spending regime would be a period of prolonged and exceptional economic growth - which has just ended in Ireland. Such growth generates substantial taxation from increased economic activity and increased numbers at work, to enable public spending to increase, while simultaneously tax rates and levels may be stabilised or reduced.

Ireland was remarkably fortunate to be in this exceptional category for the past 14 years and thus enjoyed both rising tax revenue, while both nominal and effective rates of taxation were actually reduced. However, the prolonged economic boom came to an end in the third quarter of 2007 and such a benign scenario is unlikely to be repeated. Thus, this very first term of reference places a major constraint on the work of the Commission, in ensuring that Ireland should have an equitable taxation system and one which allows for increased investment in public services in the face of the economic downturn.

This first term of reference talks of seeking to “implement further changes to enhancing the taxation of work while increasing the fairness of the tax system.”

While Congress endorses the sentiment it is our experience that changes introduced in successive Budgets have introduced greater inequity, perhaps as unintended consequences. In particular, a number of tax changes over the years have undermined the objective of rewarding work, as opposed to rewarding speculation, inheritance and capital gains. The lower taxes on capital, on inheritances and other areas introduce conflicts into the system and must be examined by the Commission in some detail, in line with this term of reference. Congress pointed out to the then Minister for Finance in a letter on the establishment of the Commission that “a person inheriting €1,000,000 from a parent would only pay an effective tax of 10.1 percent, while a great many wage earners pay at 41 percent plus PRSI. It would take 57 years on the *minimum wage* to earn that amount of money!”

The second term of reference is to *ensure that the regulatory framework remains flexible*. This is clearly ambiguous but may imply an instruction for lighter regulation. In the light of the international banking crisis, which was generated by light or non-existent regulation by Central Banks, governments and other bodies, this approach is no longer sustainable, no matter how fashionable the ‘light regulation’ school was in certain powerful quarters. Indeed, German President Horst Köhler – a former head of the International Monetary Fund – told *Stern* magazine on May 15 that: “We need more and efficient regulation, higher capital requirements to underpin financial trades, more transparency.....”.

In the same interview President Köhler demanded that the “monster” of international financial markets be “put back in its box.” There has been a significant and very audible change in the international mood music, with regard to light touch regulation in recent months, to put it very mildly.

Nonetheless, Congress understands the complexity of regulation and is not in favour of imposing heavy or unresponsive regulation. Regulation should be structured in such a fashion that it can adapt to changing circumstances and is constantly informed by events. The Government’s *Better Regulation* guidelines are useful, in this regard.

Another objective is to *guarantee that the 12.5 percent rate of corporation tax will remain*. Congress believes that this objective has become something of a chauvinistic obsession and may ultimately be self-defeating. It is unlikely to be feasible in the long run.

*On the objective of “carbon emissions and to phase in on a revenue neutral basis appropriate fiscal measures*, there is no mention of fuel poverty, in a time of rapidly rising fuel prices. Congress urges the Commission to take fuel poverty into consideration in framing any recommendations, especially with the sustained and continuing rise in energy prices, which impact on the poor most.

All these objectives are constrained within the parameters of *having regard to the commitments on economic competitiveness*. Contrary to the myth which asserts that “high taxes discourage investment because profits are taxed at a high rate” the National Competitiveness Council publishes benchmarking reports annually (based on the World Economic Forum and other sources) which show that the Nordic countries are consistently among the most competitive countries in the world. They also happen to have the highest taxes and their competitive success gives the lie to this myth.

Indeed, in the 2007/ 2008 competitive league table, there are three Nordic countries in the top six, in spite of very high taxes. This undermines this ideological assertion and should be at least noted by the Commission. Congress is not advocating *high taxes*, but rather a broader tax base, based on fairness. Overall, there is a strong case in favour of higher tax revenues, however achieved, to pay for European style public services.

In a letter to the then Tánaiste and Minister for Finance, Mr. Brian Cowen, TD, in January 2008, then Congress commented on the proposed terms of reference: “We believe that its review must be evidence-based and grounded in an overall philosophy of equity, combined with economic efficiency and the recognition that taxation is an integral part of a modern society and not ‘a burden’. The Commission might also address the clear link between public spending and taxation and attempt to inform the public of the wide choices available to them through this linkage”

Congress should state explicitly that we also dealt with the composition of the Commission: “Congress urges the Minister to ensure that the composition of the Commission on Taxation is representative of civil society.” In particular, we stated that “the government should be wary of the appointment to the Commission of representatives of certain ‘professional groups’ which are essentially anti-tax lobbies, as this would undermine its credibility before its inception.”

It is with regret that Congress has to point out that the members of the Commission as a group are not reflective of civil society, but nonetheless we hope and trust that the individual members can and will take the broad, societal view of the important issue of taxation policy.

It has been pointed out that some of the terms of reference of the Commission appear to be hostile towards the notion of *tax justice* and also to the perspective which Congress has articulated publicly in our numerous pre-Budget submissions and in other publications.

[http://www.ictu.ie/download/pdf/prebudget\\_submission\\_2007.pdf](http://www.ictu.ie/download/pdf/prebudget_submission_2007.pdf)

Congress has long been an advocate of evidence-based taxation policy in the public interest. We have been a long time opponent of the myriad of tax breaks to property investment (especially in the boom) which cost the taxpayer around €2,000 million to mid 2007, according to one advisor’s report. The government finally moved on the property tax breaks, but Congress was disappointed at the decision not to curb all property tax breaks and with the very long termination period. (see pre-Budget Submission 2007). [http://www.ictu.ie/download/pdf/prebudget\\_submission\\_06.pdf](http://www.ictu.ie/download/pdf/prebudget_submission_06.pdf)

While we understand that it can take time to unwind tax breaks/incentives, this timespan is too long and is costing taxpayers substantial lost revenue. Indeed, as we prepare this document for submission, newly-released figures show that stallion owners received tax exemption on some €91m in 2006, at a cost of €22.5m to the Exchequer.

### **Gainsharing**

Congress also sought that the tax treatment of earnings from approved Gainsharing Scheme be dealt with, as per the partnership agreement *Towards 2016*. This is still awaited and we trust that the Commission will recommend its implementation.

### **Indirect & Direct Taxes**

As in many Congress submissions, we focussed on the shift in taxation from direct income to consumption through higher indirect taxes and user charges on pages 15 and 16 of the 2007 submission. Overall, taxes on consumption are generally more regressive than income tax and the Commission should examine the balance with a view to equity and to Ireland's high price levels. These, in part, are due to the high taxes and user charges and low income taxes. Congress holds that no government subsidy regime should be introduced for Biofuels, which would further push up the price of food. Congress also has argued that the government could take a lead in price rise reduction by reducing the VAT rate from 21 percent to 20 or even lower.

### **Philanthropy & Charities.**

Congress recognises the valuable work carried-out by many charitable organisations in the areas of poverty reduction, social inclusion, human rights, health, care, international development and across a range of community, cultural and arts areas. It believes that such work, undertaken with resources raised from public voluntary contributions, should be supported through tax relief.

The current situation where donations over €250 are recognised for tax relief should be reviewed to allow lower levels of donations to qualify as tax efficient giving. Congress believes that the minimum threshold should be reduced to €0, as is the case in several other countries which share a similar tradition of charitable presence and



activity. The current cap on tax efficient giving at 10 percent of income should also be reconsidered for those within the PAYE system who choose to give more.

Within the area of philanthropy and high-level gifts, we are concerned at developments where many Irish tax exiles regard charitable giving as their 'voluntary tax'. The issue of charitable tax exemption is one which requires review to ensure that it does not contribute to the creation of a more inequitable society. Tax breaks for charitable endowments to elite, fee-paying schools, cram colleges and other enterprises, including in the health sector, should be eliminated as they can be a tax-subsidised way of endowing a two-tier society.

It appears that S103 of the Taxes Act 1997 is overgenerous. It allows the total write-off of the estimated value of a donated work of art against a wealthy person's tax instead of a cash tax payment. While Congress is very supportive of the Arts, there is a case of a review of this section on the grounds of equity and fairness

Congress believes that tax breaks for charities, schools and religions should be strictly monitored and controlled. Full transparency and accountability, with strict adherence to a standardised system of financial reporting, are important to ensure effective stewardship of funds and should be a determining factor in the licensing of charities. However, any moves to limit the advocacy role of NGOs by clamping down on their charitable status would be very regrettable.

### **Charities & VAT**

Congress is supportive of the development of a VAT compensation scheme for expenditure on equipment and services, where the resources used have been raised from donations that have already benefited from the Revenue Scheme for Donations to Eligible Charities. The principle is already recognised in the treatment of VAT on charitable expenditure for exported humanitarian goods, some medical and research equipment, aids and appliances for people with disabilities and on the purchase of rescue crafts.

### **Corporation Tax**

Congress believes that forward thinking on Corporation Tax is now required. While Congress recognises the value of the low nominal rate of tax (though many companies

pay effective rates far below this 12.5 percent maximum, e.g. Ryanair paid only at 3.4 percent on €451m in 2007) which gave Ireland first-mover advantage and we saw that the equity impact did not become an issue, because the revenue from the corporate sector grew, the low rate is but a temporary advantage. The revenue grew partly due to Transfer Pricing (TFP) by multinationals which located profits here (which were not generated here) to avail of our lower taxes (at some cost to other states' coffers). Congress trusts that the Commission will deal with the sensitive issue of Transfer Pricing in its report and unlike Forfas and other state agencies will not pretend that it does not exist. TFP has played to our advantage to date, but it is artificial and not a real competitive advantage.

As other countries reduce their tax rates, the benefit of low rates is being eroded and a change in the US or other countries could also eliminate its impact, overnight. Thus over-reliance on this rate – which is a non-market advantage, being a state sponsored initiative – is not a good long-term competitive advantage. Thus the low rate should be reviewed by long-term policy strategists, such as the Commission.

If the EU Single Market is to work effectively, the same rules, however broad, have to apply for all companies operating within its borders and this includes rules on taxation. Tax competition has a finite life and the Commission on Taxation would do Ireland a service if it recognised this and made its recommendations accordingly. In addition to Ireland's position deeply annoying our partner member states on this issue as we are no longer a poor state, the Union has to formulate workable rules on taxing companies, especially mobile corporations, on the tax rate, on the definition of corporate income, on allowable deductions etc., within some kind of European framework. Congress believes that broad ranges within which tax rates can to be set by member state are preferable to total harmonisation.

Congress would be opposed to a Common Consolidated Corporation Tax regime which is based on point of sales, as it would be unfair to Ireland, which as a small open economy, has very high exports and where many European companies are headquartered. It does appear as if the government could suffer a major loss of revenue if the point of consumption basis takes effect. Thus it is possible that Corporation Tax coordination within the Union may be a more feasible alternative in the long run.

Congress is also of the view that tax avoidance/evasion costs the developing world at least US\$160bn in lost revenue annually, greater than the total global overseas aid budget.<sup>1</sup> Effective taxation is the key to raising the revenues necessary to achieve the Millennium Development Goals, to end aid dependency and to support the fundamental relationship between states and citizens that ensures genuine political representation and good governance. To ensure policy coherence between Ireland's overseas aid objectives and our taxation policies, Congress would like to see the Commission recommending that the Irish government usher in a new financial climate of accountability, by taking an international lead in helping end tax abuses, which are having a devastating effect on developing countries. One specific effort in this regard would be to actively support the OECD's efforts to regulate tax havens.

### **The Bank Levy**

There was a special bank levy some years ago. The government abolished it in spite of the fact that the banks were major beneficiaries from the reduction of Corporation Tax from 50 percent progressively to the low maximum rate of 12.5 percent. Many had expected that the bank levy would continue with the new maximum 12.5 percent rate. This was not the case. The bank levy should be introduced as a way of broadening the tax base.

### **Tax Advantages for Private Equity Firms**

While private equity firms are no longer riding high, they will do so again on the economic upturn. These firms have no allegiance to regions, countries or employees of the firms which they take over. Congress has called on the government to ensure that these firms do not have any tax advantages over normal commercial firms. Congress supports the tax deductibility of loan interest as a normal business cost. However, when a private equity firm takes over a commercial firm and loads that firm with debt, then the state should not subsidise the takeover with tax deductibility on the interest on the debt. In order to repay the cost of the takeover, the private equity firm makes the takeover target highly leveraged with debt. It can offset all of the interest on the debt against its tax.

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<sup>1</sup> Christian Aid (2008), *Death and taxes: the true toll of tax dodging*, May 2008 p.51.

The Commission should explore limiting the debt beyond a certain proportion of a firm's shareholders' value, particularly in the case of firms which have been taken over by private equity or similar asset-stripping firms. The UK and Denmark have already moved on this. There might be an exception in the case of firms which build up debt in normal trading beyond the limit set on the tax deductibility of debt. While the role of private equity firms may have diminished in the current financial crisis, the issue is one which should and must be addressed for the future. The Commission should ensure that tax loopholes in the area are closed off - such as carried interest on profit share schemes and where income is shifted into capital gains, which, of course, is only taxed at less than half the marginal income tax rate

### **Taxes and Royalties on Oil and Gas**

The decision by government in August 2007 to impose an additional tax on profits from oil and gas fields was welcome. However, Congress believes that a Royalty Tax, that is a tax on production, rather than on profits is more transparent and easier to determine, and gives a definite return to the owners of the resources, the Irish people. If there is a huge oil or gas field found off our coast, the Irish people will never forgive the government/Commission for not taxing one penny on the production of their own oil or gas. Provided there is a reasonable threshold for production, this tax on output would not discourage exploration and exploitation.

### **Capital Taxes**

While there has been some progress in making the system fairer and more progressive, there are major flaws in a system which allows large amounts of income and wealth to remain untouched or only lightly touched by taxation, while all income from work, especially by workers as employees, is taxed at the marginal or higher rate. The reform of capital taxes is essential if there is to be a fair tax system and if income from work and enterprise are to be unfairly taxed in comparison to other forms of income/gains. A system where inherited wealth is virtually untaxed while incomes are taxed at effective marginal rates of near 50 percent for middle income workers is unfair. It also distorts our system of reward for effort and work. The taxation of

capital gains is unfair compared to the taxation of income in Ireland, favouring speculation and unearned income over that earned through work and enterprise.

The Congress pre-Budget Submission, 2008 pointed out that: “Many government statements on taxation support the principle of rewarding work and enterprise, yet the tax system is biased in favour of unearned income and inherited wealth.”

An opening section in last year’s Budget statement by the Minister for Finance, Mr Cowen, was headed *Rewarding Work* and the Minister stated that Irish “economic success is driven by the hard work and the collective effort of the people.”

In the Programme for Government, the section on taxation is called *A Fair Tax System*. It begins by stating that “our first priority remains low and middle income earners.” The best way to assist these people is to ensure that income from all sources is taxed in the same way. This principle of taxation is the key to a fair tax system.

### **Tax Exiles**

In our recent briefing *Economic Outlook, 2008: Narrowing the Pay Gap*, Congress argued that the pay of those at the top should be curbed and simultaneously raised for the low paid. We suggested that the Revenue act firmly against tax exiles especially those who overstay their time here. The time limits should be reduced especially for those who have huge trophy homes, in which they purport not to live. They are in effect stealing from the state. Congress argued that a much tougher regime should be put in place to tax these people. Even the British Labour party has extracted some money annually from the wealthy non-domiciles resident in the UK.

### **Income Taxation & Excessive Remuneration**

Congress believes that those on the minimum wages should continue not to pay income tax and that the system should be progressive. However, the many tax exemptions, established by the state, means that it is not progressive and many millionaires do not pay tax. While we welcome the new minimum income tax rate, we are still at a loss as to the reasoning why those on very high incomes still will pay effective rates below those on average incomes.

*Narrowing the Pay Gap* contains a section on what should be done to curb excessive remuneration on high incomes and thus reduce the growing pay gap in Ireland. It is not feasible to call for wage moderation when those at the top in the public and particularly the private sector are awarding themselves excessive pay rises.

[http://www.ictu.ie/download/pdf/economic\\_briefing\\_narrowing\\_the\\_pay\\_gap.pdf](http://www.ictu.ie/download/pdf/economic_briefing_narrowing_the_pay_gap.pdf)

Congress has also suggested that all remuneration in excess of €640,000 i.e. excessive pay should not be deductible as a cost for companies and thus end the tax subsidy for such excessive payments, as is the case in the US. In Germany, there is a similar proposal coming from the tax review group this year.

Taxation is a key policy instrument for income disparity reduction and this should be borne in mind when considering new tax incentives.

### **Savings and Pensions**

The Government must develop a strategy for older people that covers all areas of policy relevant to their quality of life, such as pensions, care, health care, housing and employment and pensions are a key part of this strategy. Congress is calling for an increase and reform of the State pension (but in a way which no longer subsidises employers with integrated schemes); for more to be done to protect defined benefit occupational schemes; and for incentives to improve pension take-up by regular workers, all which could be part-funded by curbing the excessive incentives to wealthy pension investors at major cost of the general taxpayer. The Green Paper on Pensions is being discussed and Congress favours a mandatory pension scheme for all employees. Recognising the failure of private annuity market, we hold that a State Annuity Scheme be introduced as a matter of some urgency.

### **PRSI Reform & Social Insurance Fund**

The Programme for Government commits to abolition of the ceiling on PRSI. Congress welcomes this as a move that will improve the progressiveness of the income tax system. However, it appears that the proposed reduction will reduce the size of the Social Insurance Fund. Congress supports a comprehensive welfare system and retirement benefits, we are concerned that the reduction in the rate of contribution for

the self-employed by 33 percent is over-generous and trust that “value for money” in the changes proposed for the self-employed, that there is a full assessment of the cost and benefits and that the reform is equitable.

The government also promised that “the Fund will be reimbursed by the Exchequer for the cost of this reform.” Congress wants a mechanism put in place to ensure that the Fund is not short-changed by government in the future. The governance of this massive Fund is very poor in the modern era. Congress holds that the best way to protect the hundreds of millions of contributions for workers in this fund is the establishment of a modern governance structure, perhaps with a Board of Trustees for the Social Insurance Fund with a majority of employee representatives, perhaps within the NTMA stable.

Congress is opposed to any removal or upward shift in the PRSI ceiling, which is not simultaneously accompanied by a commensurate reduction in the rate, particularly in regard to middle income workers. The current high ceiling on pension contributions should be substantially reduced for reasons of equity and to reduce tax avoidance by high income earners.

### **Local Government Funding**

The system of local authority funding must seek to protect local democracy. An effective system of local funding should link accountability between revenue raising and the decisions of local councillors on funding and services. The abolition of domestic rates in 1977 weakened this link and any new proposal should bear this in mind.

Congress is strongly of the view that the privatisation of local services is not an acceptable response to the challenges of local government funding. There is little evidence to support the view that private provision of local services delivers better value for money or higher quality services. Irish and international experience suggests that the main aim of privatisation of local services has been to cut spending, regardless of the impact on services. Even in this limited objective, the experience has been mixed at best, and there are examples where local authorities and other public bodies have missed opportunities to make savings or generate revenue by opting for private provision. Privatisation has tended to mean poorer services, weaker democratic control

of the range and quality of services, higher charges, and worse pay, pensions and working conditions for staff delivering public services. The bulk of local authority funding now derives from the following five sources:

- The Local Government Fund, which is made up of funds from the Department of the Environment and Local Government and motor tax receipts collected by local authorities;
- Commercial rates, which are collected on the basis of rateable values set by the civil service Valuation Office;
- Charges to business, predominantly water and waste charges;
- Charges to domestic service users, predominantly waste charges;
- Other central government grants tied to specific initiatives.

The average county council receives about half its funding from the centre and half from locally-generated charges, although the situation varies considerably from council to council. In Dublin most funding is locally generated, with about 30 per cent of funding coming from the centre. This reflects the fact that the concentration of commerce, population and tourism in the capital gives it a stronger tax base. However, Dublin's relatively small share of central local government funding remains a problematic issue in the capital.

Ireland's system of local authority funding is very unusual. Local government is the product of centuries of local political culture and the services provided by local authorities differ widely across countries. In most European countries, local authority funding systems are characterised by an almost universal acceptance of property-based domestic rates, business and domestic service charges, or some combination of both.

In Ireland, local authority funding has been problematic and controversial since (and before) the abolition of domestic and farming rates in the late 1970s and this move has made the system of funding very difficult. The present system of taxation on property in Ireland is fairly regressive and distorts the market, as the recent OECD report showed, but fixing it would require considerable political skill and commitment.



Congress supports the 'polluter pays' principle, but within these parameters. These should include:

- 'Polluters' should be adequately addressed in the generation of waste at every stage of production, distribution and consumption. This should include economic disincentives on producers and distributors of unnecessary packaging and waste;
- The system must take account of ability to pay;
- The system must take account of other socially and economic policy objectives;
- Any charges or penalties must be genuinely aimed at changing behaviour. Benefits should accrue to those who produce fewer waste products just as penalties accrue to those who produce more;
- The system should reward those who reuse and recycle waste products.

It is unlikely that local personal, or value added taxes would be efficient to collect and enforce in a country of our size and local government structure. With Ireland's very low overall business tax regime, there is scope to increase central business taxes and divert resources to the local government fund and other public services. However, a better balance between central and locally generated local authority funding is also desirable.

Consideration should be given to these reforms for local Government Financing:

- There should be local taxation of the beneficiaries of local authority rezoning decisions, although rezoning decisions should be primarily based on social, economic and environmental considerations.
- Development levies should be reviewed to ensure that they raise funds from builders and speculators, rather than home buyers. These levies could be part paid by building social housing.
- The introduction of local sales taxes (e.g., on fuel or bed nights in hotels and similar accommodation), which are a feature of local authority funding in some countries.

- The standardisation of waivers from domestic charges across all local authorities, with waivers being granted through the national tax and benefits system.
- Increases in central funding for local authorities should reflect the real burdens on local authorities, rather than the CPI, including those costs imposed by central government policy decisions.
- Local authorities should have increased powers to consider and implement other fund raising initiatives like tourism taxes.

### **Tax Expenditures**

In our submission on this area in May 2005 we made the following points:

1. Tax expenditures are difficult to quantify in advance.
2. They are subsidies and have anti-competitive effects.
3. Some of the property based schemes have also led to some urban and rural blight.
4. They have unintended consequences.
5. They have boosted construction inflation.
6. Tax expenditures should have a limited time span because of the “diffusion effect”, where there is demand for their expansion at the cost of their impact, but generally they are very difficult to terminate.
7. Tax expenditures can be very regressive.

[http://www.ictu.ie/download/pdf/submission\\_on\\_tax\\_expenditures\\_may\\_2005.pdf](http://www.ictu.ie/download/pdf/submission_on_tax_expenditures_may_2005.pdf)

The decision by government to greatly expand the so-called Business Expansion Scheme (BES), allowing high earners to increase their income tax write-off from €31,000 to €150,000 and to prolong the scheme for 7 years flies on the face of evidence-based taxation and of equity in taxation. Congress objected to this ill-considered, knee jerk move which did not even examine the need for state aid, where a serious assessment would find fault. This BES expansion was even contrary to the advice of government’s own consultants who recommended no tax breaks for longer

than three years and that all be fully evaluated before implementation<sup>2</sup>. The expansion of the BES was decided without such an independent evaluation. Yet the government is not found wanting when it come to talking about 'Value for Money' in health or education spending. We call for consistent and evidence-based policy making

Congress believes that it is not sufficient that the Commission review all such expenditures and recommend discontinuation of those which are not justifiable on cost/benefit grounds, but that it must recommend that all such future tax breaks should be reviewed prior to their establishment by the Department of Finance. Further, if the Department does not have the expertise to do undertake this important work, then it should hire it in-house, as a matter of priority.

### **Emissions Trading and Carbon Tax**

The EU's emissions trading scheme is largely a subsidy to industry. Congress recognises that many of the industries covered by it are large employers that provide good jobs. However, in Ireland's case, this subsidy to business comes on top of a long list of business-friendly fiscal policies including:

- Corporation Tax reduced from 50 percent to 12.5 percent;
- Capital Gains Tax halved to 20 percent;
- Employers' PRSI is the lowest in OECD;
- Introduction of R&D tax credits;
- Maintenance of an extensive list of tax shelters, although there has been moves to terminate many of them, albeit over a long time span.

While we recognise that capital is mobile and has no loyalties there must be some limits, otherwise the implications for social cohesion are very severe. The issue of climate change is one which has to be addressed and taxation must be part of the solution, but it must be framed in a way which is equitable.

### **Evasion & Avoidance.**

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<sup>2</sup> Indecon report for Dept of Finance, page 308.

While progress has been made in tackling tax evasion, Congress is of the view that the Revenue should undertake many more tax audits. These audits generate excellent results and their wide sweep leads to further evasion being uncovered, generating a strong deterrent. The levels of evasion in the construction sector are still high and while Revenue has focused on this area, more needs to be done, particularly in dealing with bogus self employment.

The virtue of a relatively simple tax system means less room for tax avoidance. Congress would like to see that day when many of the best brains in Ireland move from tax avoidance planning and become more productively employed generating wealth instead of being value-subtractors from the education, health and welfare system.

### **Conclusion: Greater Equity Equals Greater Productivity**

In our recent briefing paper we made the case that the “growing income and wealth gap cannot continue if Ireland is to become a more meritocratic society, based on reasonably equal opportunities for all. What has been happening is dangerous for society and for the economy. The modern knowledge-based economy cannot be based on a few rich barons directing the little people. People are much more educated and demanding of good management and fair rewards.”

It is our view that political legitimacy in Ireland and internationally is being undermined by the new breed of super rich that does not pay tax anywhere. We argue that: “The toleration of this by sovereign governments, along with the huge tax avoidance industry in Ireland, where the very richest pay little or no tax and are facilitated by a vast array of dubious *government*-sponsored tax breaks, must end. This in addition to a system of grossly excessive executive remuneration, particularly in the private sector, assisted by a lack of oversight of executive boards by outsiders and the manipulation of share options and bonuses, with the compliance of so-called *independent* directors and major institutional investors. There is also a move away from corporate transparency to hide excessive remuneration by the use of unlimited, EU and offshore companies and the greater use of tax havens by the rich and their toleration by sovereign governments. It behoves serious politicians to address these issues nationally and at EU level.”

So too does it require this Commission on Taxation to address these key issues from the perspective of the citizen.

Ireland is well placed for the future and the taxation system can play a vital role in ensuring our future prosperity. It has a major impact on the performance of the economy, on the welfare of the poorest as well as some impact on the richest. It is a vital mechanism for income redistribution and for paying for the modern European-style public services to which virtually all Irish people aspire. The work of the Commission will be important in shaping our future taxation system and Congress hopes that it will reflect the broad views of all Irish citizens.

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