Making Work Pay

Budget 2024 Submission

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

Contents

Key recommendations

Cost of living - raising wages and incomes

- Make the **minimum wage** a genuine living wage.
- **Benchmark** all **social protection payments** to an adequate percentage of median earnings and raise all social protection payments by an amount greater than headline inflation.
- Introduce **second tier** of **income-tapered child benefit** and continue to reduce the **cost of childcare** so that parents ultimately only pay for non-labour costs and for regulated fees.
- Make targeted **reductions to the user cost of public services**, including in healthcare, education, and public transport.

Improve job quality

- **Tackle bogus self-employment** by raising Class S PRSI rates.
- Reinstate **tax relief for trade union subscriptions.**
- Increase **funding for training, upskilling and reskilling** to prepare for the green, digital and other future economic transitions and introduce a statutory entitlement to paid training leave.

Using the windfall corporation tax receipts

- Use part of the windfall receipts to establish and fund a new **housing supply semi-state** to construct A-rated public housing, based on public ownership and genuine cost-rental principles.
- Use part of the windfall receipts to establish a **green investment fund** to part-fund 'once-off' capital costs of the green transition to a net-zero economy in a manner consistent with 'Just Transition' principles and to shield such investments from future austerity measures.
- Use remainder of windfall receipts to establish a **long-term savings vehicle** to help pay for the future costs of an ageing population.
- Maintain the existing **'rainy day fund'** as a resource for counter-cyclical purposes to be deployed to provide temporary fiscal stimuli to ameliorate and shorten future recessions.

Other funding priorities

- Increase funding to ensure **health services**, including mental health services, are fit for purpose and safe staffing levels are secured for every level of service provision.
- Increase investment in **education** at all levels to bring spending per pupil and student closer to the average of other high-income European countries.
- Increase investment in **construction**-related **apprenticeships.**

International Solidarity

- Outline a short-to-medium term pathway in which Ireland meets its obligation to raise **Overseas Development Aid** to 0.7% of GNI*.
- Make Ireland one of the 'first-movers' in implementing the new global policy regime for the taxation of multinationals; proactively ensure that Ireland is not used as a location for aggressive tax planning and does not contribute to a global **'race to the bottom' on corporation tax.**

Social insurance

- Move to a system of **pay related unemployment insurance** and progressively extend pay-related benefits to include **maternity, paternity, parents' and illness benefits**.
- **Increase employer and self-employed PRSI** on those earning more than €100,000 as the first stage of a multi-annual process of increasing employer and self-employed PRSI rates to fund the state's long-term pension costs and to fund an expansion in social insurance benefits.

Sustainable taxation

- Congress endorses the finding of the Commission on Taxation and Welfare that government revenue as a share of national income will have to increase materially.
- **Cuts to income tax would be pro-cyclical and inflationary** and would almost entirely benefit the better off. Congress rejects this strategy. It is unwise and should not be pursued.
- Congress instead **proposes a series of measures to increase government revenue**.
- Introduce a modest **net wealth tax** on households with net assets worth more than €1 million.
- Raise significantly greater revenue from inherited wealth, such as by reducing **CAT reliefs for business and agriculture and** by reducing **CAT thresholds.**
- Reform the system of **tax expenditures related to CGT**.
- Significantly increase the **LPT rate on non-principal residences** and on properties worth more than €1 million.
- Introduce a **Site Value Tax** alongside the existing LPT.
- Abolish the **Special Assignee Relief Programme** (SARP).
- Increase existing and introduce additional **taxes on pollutants** and on other activities with negative social or environmental outcomes (e.g. on health or on GHG emissions).
- Abolish the **Help to Buy Scheme**.
- Reduce the **tax-free retirement lump sum** and the **Standard Fund Threshold**.
- Reform the **R&D tax credit**.
- Eliminate **tax relief for private health insurance** on a phased basis over the short term.
- Restore the **VAT rate for the hospitality industry** to 13.5% and do not provide similar tax advantages in the future.

Foreword

The Irish economy is in a unusual position. The numbers at work is at a record high, unemployment at a record low, inflation, though high, is falling, and the headline public finances appear strong.

And yet, low pay and precarious work are widespread, real wages and incomes have fallen over the past year, deprivation rates are rising, and there is uncertainty about the dependence on corporation tax receipts.

As the population increases and ages, progress on resolving long-standing housing supply and affordability issues is too slow, early years' services too expensive, classrooms and hospitals under-staffed and over-crowded, and public transport inadequate. And all the time, emissions rise and biodiversity deteriorates.

Since the start of the pandemic - which overnight confirmed the importance and necessity of public services, social safety nets and decent working conditions in a modern society - Congress has advocated for a new economic model – one aimed at inclusive and sustainable growth, that promotes collective bargaining to ensure decent work for every worker, universal public services and benchmarked social protection rates that guarantee a life of dignity.

We know such a model requires a better-resourced state. That is why Congress accepts and supports the key finding of the 2022 report of the Commission on Taxation and Welfare - that government revenue as a share of national income has to rise if Ireland is to meet the challenges of demographic and climate change in the years ahead.

Making Work Pay sets out Congress's key policy recommendations, for the short and for the medium terms. Crucially, we believe tax cuts as proposed by government would not just make it even more difficult to meet pre-existing and future challenges but would be pro-cyclical and inflationary given the current juncture of the economy. In short, they would be irresponsible.

We believe government should engage in a deeper dialogue with unions and civil society to ensure Ireland is able to the challenges we face. Congress is willing to play its part, and looks forward to engaging on the goals and ambitions set out in this submission on behalf of workers in Ireland.

Owen Reidy

General Secretary, Irish Congress of Trade Unions

1: Economic Outlook and the Congress Position

1.1 No Going Back

The Irish economy is in a very unusual position. The labour market appears close to, if not already, overheating, yet real wages and incomes have been falling. Consumer confidence is fragile, yet employment is at a record high. The headline public finances are in strong surplus, yet there are genuine concerns about its long-run sustainability. Price inflation has been at a multi-decade high, yet rapid monetary tightening hasn't noticeably slowed the economy, at least thus far.

We are enduring a turbulent era of economic disruption with the economy beset by a range of shocks. These include Brexit disruption; the continuing economic turbulence of the Covid-19 pandemic; the energy supply shock, spiralling cost of living, a decline in real incomes, and now fast rising interest rates. Despite all this turmoil, the economy has thus far proven resilient. Labour demand outstrips labour supply capacity in a number of sectors. The housing crisis rumbles on.

The Covid-19 crisis showed once again that basic public services, good employment, and the broader welfare state are the indispensable bedrocks underpinning people's economic well-being. The relationships between workers, business and the state were fundamentally altered by the crisis. Enormous sacrifices were made by workers and Congress believes there can be 'no going back' to the old economic model.

Congress is calling for an expansion of the welfare state and public services in Budget 2024, including reductions in the user costs of services. A greater emphasis on universal public services will structurally reduce the overall cost of living for households. This is good for competitiveness and for living standards. We believe that this is the approach that government should prioritise. Notably, we need to address the home-grown cost of living challenges in areas like housing and childcare services, as well as staffing challenges in healthcare. There needs to be a step-change in how we respond to these issues.

The cost of living crisis, and especially the increases in energy and food prices, are disproportionately affecting lower income households, and pushing people into poverty and deprivation. Protecting households necessitates higher incomes and wages for workers and for families. We must therefore ditch our low-road model of precarious low paid work, and replace it with an economic model based on high productivity and high wages. The minimum wage should become a genuine living wage.

We also need to prepare for a range of profound medium-term challenges. These include but are not limited to (A) a rapidly ageing population, (B) automation and artificial intelligence, (C) digitalisation, and of course (D) the huge economic and societal task of transitioning the economy to net zero green-house gas emissions and restoring biodiversity.

The green transformation will require significant and ongoing state investment for the next quarter of a century, alongside income and training supports if we are to achieve net zero in a manner consistent with a just transition. The various technological transformations will require additional and ongoing spending on education, on life-long learning, and on research & development (R&D).

In addition, the ageing of the population has profound implications for fiscal policy and for the sustainability of our low tax model. Put simply, government spending will need to increase significantly as a portion of national income over the medium-term.

Tax cuts in Budget 2024 would simply make it more difficult to resolve the ongoing crises in housing, health, childcare, biodiversity loss, and a range of other areas. This should be obvious, but sometimes the obvious needs to be said. Tax cuts would also make it more difficult to rectify the underfunding of education and R&D, to pay for the cost of the green transition, and of course to meet the substantial fiscal challenges of the demographic transition.

There is a further argument against tax cuts specific to Budget 2024. At this point in the economic cycle tax cuts would be highly procyclical, would amplify boom-bust dynamics, would exacerbate inflation at a time of capacity constraints, and would contribute to the overheating of the economy. Cuts to income tax would also be regressive.

The Congress position is clear. There should be no tax cuts in Budget 2024. Instead, fiscal policy should focus on ensuring income adequacy for poorer households. Fiscal policy should also focus on dealing with Ireland's profound and strategic economic and social challenges in areas such as housing supply and healthcare and in the provision of the necessary infrastructure and other supports needed to manage a successful and a just green transition.

Finally, windfall corporation tax receipts should not be used to finance a short-run fiscal expansion. Instead, net spending increases beyond the rate of medium-term potential growth should be funded via discretionary increases in taxes and/or social contributions. We note in particular Ireland's chronically low rates of employer and self-employed PRSI.

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1.2 Context and Outlook

The economy has been growing rapidly. The economy's productive capacity was largely preserved by the highly supportive and countercyclical suite of economic policies that were aggressively and correctly pursued during the Covid crisis. This proactive intervention enabled the strong bounce back we saw in 2022 and which has continued in 2023.

The labour market is performing very strongly and would be close to or at capacity in the absence of ongoing inward migration. There is little evidence of scarring from the Covid pandemic due to the successful economic response to that crisis, while the composition of employment has generally shifted to higher value-added activities and sectors. The unemployment rate has reached a record low in 2023 as the employment rate has reached a record high. Labour supply issues are evident in a number of areas including the broad construction sector, despite high levels of labour force participation.

Even so, real disposable household incomes have been in decline. The energy price shock arising from the invasion of Ukraine triggered very significant inflationary pressures which outpaced earnings growth. Low income households have been particularly badly affected by the cost of living crisis with a rise in the overall and in-work deprivation rates in 2022. Inflation remains high and is likely to average close to 5% this year with concerns about core inflation becoming sticky.

Second and third order effects of the energy price shock continue to reverberate and to exacerbate cost of living pressures. The global economic outlook in terms of commodity prices suggests a downward trend in prices. While headline inflation is likely to continue its downward trajectory over the next year, the pace of that decline remains highly uncertain.

Central Banks have responded to the surge in inflation by increasing interest rates. This monetary tightening will increasingly weigh on consumption and investment over the short-term and the extent of real-economy damage from the tightening is not yet clear. Notably, the higher cost of credit may act as a brake on investment in housing supply. The unwinding of the savings rate from its record level enabled household consumption to remain relatively buoyant this year.

Recessionary prospects are fading amongst Ireland's trading partners notwithstanding concerns about the global financial sector and monetary tightening. However, export performance is subject to significant uncertainty and volatility due to its high level of concentration.

The Irish economy remains, on balance, likely to avoid a recession, with improving real incomes, employment growth, and a normalisation of the household savings rate all set to support underlying demand. Congress expects that the supply-side and cost of living challenges of recent years will continue to diminish in late 2023 and into 2024, while the tight labour market will drive real wage growth. An increase in real disposable household income will support consumer spending.

However, risks are weighed to the downside and include weaker than expected trading partner growth, further shocks to energy prices, a slowdown in China, or prolonged and aggressive monetary tightening due to sticky core inflation. In addition, the ongoing housing supply crisis may weigh on employment growth via reduced investment into Ireland and via constraints on internal labour mobility during a tight labour market.

While employment growth will not match the unsustainable levels seen in recent years and job vacancy rates have started to slow, we anticipate, assuming an ongoing expansion of economic activity, that net employment gains will be sufficient to keep the unemployment rate at close to 4%. The tight labour market and a lagged 'catch-up' with a high but falling inflation rate implies real wage growth this year and next. Wage growth is likely to exceed 5% in 2024, albeit with the usual variation between sectors.

1.3 Public Finances

The headline public finances are in a strong position reflecting the health of the domestic economy and of the exporting sectors. However, the sustainability of the underlying structural position is less clear. This is because the headline position includes a surge in corporate tax receipts to levels that may not be sustained over the medium-to-longer term.

The Summer Economic Statement (SES) points to a total budget package of €6.4 billion of which €3.2 billion reflects demographics and pre-commitments. One-third (€1.1 billion) of the remaining €3.2 billion will be used to cut taxes leaving €2 billion for expenditure measures.

The SES projects a cumulative surplus of €56.5 billion over the 2023 to 2026 period though this does not account for the ongoing uncertainty surrounding the corporation tax receipts. Corporate tax receipts have increased from €10.9 billion in 2019 to a projected €24.3 billion in 2023. We note the Department of Finance's estimate that the General Government Balance excluding windfall corporate tax receipts falls by close to €48 billion over the 2023 to 2026 period. The concentration of the corporation tax receipts is a further worry as it means that the health of the public finances depends on the performance of a small subset of firms.

It would not be prudent to use the windfall receipts to fund ongoing current spending increases or indeed to finance permanent tax cuts. Instead, the potentially non-structural or 'windfall' revenues should be allocated to a combination of A) a countercyclical rainy-day fund to finance once-off responses to economic crises, B) one or more state investment funds that could be used to part-finance the enormous capital costs required for Ireland to achieve its net zero green transition and/or to finance the setting up costs of a new housing semi-state responsible for the direct provision of housing, and C) a long-term savings vehicle to help fund future ageing costs.

Our view is that the medium-term fiscal position is somewhat fragile, as the fiscal costs of ageing will increase significantly over the coming years. There is also the capital and other costs of the twin green and digital transitions, and the cost of reversing the chronic underspends in a range of areas including housing, education, public transport and elsewhere. While most of Ireland's debt is locked in at very low interest rates over the short-to-medium term, Ireland's per capita debt burden remains one of the highest in the world and is vulnerable over the longer-term to a structural increase in borrowing costs.

In this context, we note and endorse the Commission on Taxation and Welfare's main recommendation that:

> *.... given the medium-to-long-term threats to fiscal sustainability, the overall level of revenues raised from tax and pay related social insurance as a share of national income*

> *must increase materially… (Commission on Taxation and Welfare, p.67)*

Our view is that core public expenditure should, over each of the next few years, increase by more than the allowed 5% per annum that is consistent with the economy's growth potential. We believe that this is necessary not only to address the cost of living crisis and income inadequacy, but also to begin to address the existing and profound deficits in public spending across a range of areas.

We note that Ireland has very low levels of per capita public spending relative to Western European norms as well as low levels of spending relative to national income. In particular, Budget 2024 should focus on building our collective economic and social infrastructure through greater funding for universal subsidised public services and through benchmarking all social protection payments to an appropriate adequacy indicator. Our priorities for public spending are outlined in subsequent sections.

To be clear, we are not arguing for the government to engage in fiscal stimulus at a time when the labour market is already close to its capacity and may be overheating. This would fuel inflation at a time of already rapid price increases. Rather, we are proposing that the higher level of spending increases be financed via a range of discretionary tax and PRSI measures designed to increase Ireland's overall level of revenues as a share of national income. It is imperative to address the chronically low levels of government revenue in Ireland compared to peer high-income European countries.

Congress's view is that by far the greatest scope to increase government revenue (in the sense of relatively underdeveloped areas) is via increases in PRSI (employer and self-employed), increases in capital taxation (a wealth tax, reforms to CGT and CAT, and to the taxation of capital stocks in general), increases to green taxes on pollution, as well as root and branch reforms to the system of tax expenditures (e.g. abolition of SARP and Help to Buy). These reforms should collectively be implemented on a phased basis over the medium-term.

Finally, Congress would like to emphasise our firm view that plans to cut income taxes in Budget 2024 are unwise and should be abandoned. Tax cuts of this nature would be pro-cyclical, inflationary and regressive. In addition, by cutting into public spending they would make harder the job of remedying the ongoing crises in housing, in healthcare, in early childhood care and education, in the provision of public transport, and in a range of other areas.

plans to cut income taxes in Budget 2024 are unwise and should be abandoned

2: A Sustainable Revenue Base

2.1 A Fragile Medium-term Picture

The public finances are ostensibly in a very strong position with very large budgetary surpluses projected out to 2026. However, this masks significant vulnerabilities. First of all, most of the projected surplus relates to potentially volatile corporation tax receipts which have expanded rapidly in recent years and may prove unsustainable.

Secondly, a large proportion of the corporation tax yield depends on a very small number of companies. It would be highly unwise to make ongoing spending or revenue commitments based upon the performance and the business decisions of such a small number of firms. A portion of this uncertain corporation tax yield is better treated as a windfall or 'once-off' and redirected into investment vehicles for financing once-off capital projects. It should not be used to plug structural funding commitments or to finance tax cuts.

Thirdly, Ireland has a very high level of per capita public debt which makes the public finances vulnerable over the longer-term to a structural increase in interest rates and to the cost of borrowing.

Fourthly, the economy is already experiencing capacity constraints both in the labour market and in terms of material shortages, and is either overheating or close to overheating. This implies the structural position of the public finances is less healthy than the headline position.

Fifthly, the Commission on Taxation and Welfare[1] has pointed out that the medium-to-long-term position of the public finances is fragile, and that government revenues will have to increase meaningfully as a percentage of national income if we are to meet medium-to-long-term funding challenges. Most notably, demographic changes will lead to an ageing of the population and to significant funding pressures in areas like healthcare and pensions. The falling working age ratio will mean slower economic growth and a weaker revenue base in the future. In addition, there will be a significant annual fiscal cost associated with transitioning the economy to net zero GHG emissions. Indeed, a successful green transition itself implies a reduction in green tax receipts from fossil fuels.

A final point is that with the economy close to or at capacity it would be especially unwise to cut taxes at this stage in the economic cycle. Doing so would be procyclical and inflationary. Cutting income taxes would also be regressive while making it harder to address chronic issues in areas like housing, healthcare and public transport. While Congress believes that the social and economic investments identified in the later sections are essential to our long-run economic and social well-being we also recognise that they must be financed. We do not believe it would

1 Commission on Taxation and Welfare (2022) Foundations or the Future

be prudent to adopt a stimulatory position when the economy is overheating. Instead, we believe that Ireland requires a broader and more resilient revenue base. In other words, there is no scope for cutting taxes.

Recommendation: There should be no net tax cuts in Budget 2024.

Recommendation: Over the medium term, the overall level of revenues raised from tax and pay related social insurance as a share of national income should increase materially in order to meet long-run public spending needs.

Table 2.1 shows that Ireland's revenue yield is relatively low in comparison to the EU average and compared to other high-income European countries. This is consistent with the pattern from previous years. Government revenue was €5.1 billion below the EU average when considered in percentage of national income terms (GNI* basis for Ireland). The high-income Western European economies tend to have higher tax ratios than their Eastern European counterparts. Many of these high tax countries also have higher employment rates and competitiveness rankings than Ireland suggesting a weak or even no relationship between economy-wide taxation levels and labour market outcomes.

Ireland's revenue yield from *consumption* taxes (mainly VAT and Excises) is broadly in line with the EU average (see Table 2.1). Consumption taxes are generally regressive when considered in isolation unless they are targeted at luxury goods and services. Even so, the net impact

Table 2.1: Tax revenue (including SSCs), % of GDP (GNI* for Ireland), 2021

Country	Labour	Consumption	Capital	Total
EU27	20.9	11.2	8.5	40.7
Germany	23.0	10.3	7.7	41.1
Denmark	24.3	13.4	10.4	48.1
France	22.9	11.7	10.5	45.1
Netherlands	19.4	11.9	8.3	39.7
Belgium	22.0	10.9	10.6	43.6
Finland	21.1	13.8	8.2	43.0
Sweden	24.2	11.9	6.7	42.8
UK (2019)	13.0	11.1	9.7	33.8
Ireland (Rep.)				
Eurostat *(Tax Trends)*	16.2	10.9	11.2	38.5
Tax Gap to EU27 (€ billions)				5.1

Sources: Eurostat (2023) Taxation Trends in the European Union, CSO (2022) National Accounts

Notes: SSCs are Social Security Contributions.

of consumption taxes can be to contribute to an overall reduction in income inequality and poverty to the extent that such revenues contribute to funding social transfers and an enhanced provision of subsidised public services. For example, the Nordic economies all have high taxes on consumption but generally low levels of income inequality and high levels of well-being.

One consideration is that there may not be significant scope to introduce net increases on consumption taxes in a manner consistent with progressivity and with poverty reduction. This may have implications for our ability to manage a just green transition through increases in pollution-based taxes such as carbon taxes, and through the removal of fossil fuel subsidies. Congress strongly favours hypothecating (i.e. earmarking) future increases in green taxes to a fund for managing the net zero transition in a manner consistent with protecting low income households.

Recommendation: Green taxes should be ringfenced to fund the just transition and to protect low income households.

The Congress view is that over the medium term there will need to be significant reforms on the revenue-side in order for us to address the chronic underfunding of public services and in order to implement the transition to a net zero-economy in a manner consistent with climate justice. The direction of travel for policy will need to be net revenue raising, as opposed to net revenue reducing. Plans to implement tax cuts are short-sighted and should be abandoned.

2.2 Understanding Ireland's 'Under-taxation'

Ireland's taxes on income from self-employment and taxes on wealth and property (capital stocks) are comparatively low relative to the EU average. Reforms designed to increase revenues are certainly needed in both of these areas.

However, Ireland's low overall revenue yield relative to the EU average is mainly a function of the 'under-taxation' of labour income (i.e. combined income tax and social security contributions). The under-taxation of labour as a percentage of economic output amounts to over €10 billion. Table 2.2 decomposes labour taxation into its various bases. While tax revenue from employees exceeds the EU average, employers are *significantly 'under-taxed'*, as a percentage of output, and employer contributions would need to double to reach the EU average.

there will need to be significant reforms on the revenue-side in order for us to address the chronic underfunding of public services

Table 2.2: Tax revenue from labour, selected countries, % of GDP (GNI* for Ireland), 2021

Country	Employee	Employer	Non-employed	Total
EU27	10.2	8.2	2.5	**20.7**
Germany	13.5	7.1	3.0	**23.2**
Denmark	18.3	0.7	5.3	**22.8**
France	8.9	12.2	1.9	**22.9**
Netherlands	10.0	5.3	4.1	**19.6**
Belgium	11.7	7.8	2.4	**21.9**
Finland	10.6	7.5	3.0	**21.1**
Sweden	10.0	11.6	2.6	**24.2**
UK (2019)	8.8	3.9	0.2	**13.0**
Ireland (Rep.)				
Eurostat *(Tax Trends)*	11.8	4.1	0.4	**16.2**

Sources: Eurostat (2023) Taxation Trends in the European Union, CSO (2022) National Accounts

In effect, Ireland's low level of employer PRSI is the 'elephant in the room' that explains why Ireland's revenue base is out of step with Western European averages. Reforms to the revenue base cannot ignore this crucial fact.

It is also worth considering implicit tax rates (ITRs). The ITR is the tax yield

Table 2.3: Implicit Tax Rates (ITRs) in selected countries, 2021

Country	Labour	Consumption	Capital (2019)
EU27	37.8	17.9	-
Germany	37.7	16.3	31.2
Denmark	36.6	24.2	41.9
France	39.6	18.5	54.2
Netherlands	31.3	20.1	15.9
Belgium	40.4	18.2	35.1
Finland	38.7	21.2	
Sweden	38.5	21.7	27.0
UK (2019)	25.7	15.2	-
Ireland (Rep.)	33.1	20.7	14.1

Sources: European Commission (2021) Taxation and Customs Union, Data on Taxation; See McDonnell (2021) divided by the tax base.[2] Ireland has a relatively high ITR on consumption at 20.7% (Table 2.3). The EU average is 17.9%. On the other hand, Ireland's ITR on labour income, at 33.1%, is well below the EU average of 37.8%. Drilling deeper, Table 2.4 shows that the ITR paid by employees in Ireland actually *exceeds* the EU average. Ireland's low ITR on labour is again a function of the paltry employer contributions.

By far the greatest scope to increase government revenue (in the sense of 'exploiting' areas of relative under-taxation) is via increases in employer and self-employed PRSI. Significantly increasing employer PRSI must form an essential component of the necessary long-term reforms to the revenue base that will enable us to meet structural challenges. In addition, social insurance helps protect workers in the event of loss of income related to inability to work or to find employment.

Recommendation: Self-employed and employer social contributions need to increase significantly over the longer-term in order to bring Ireland into line with other EU countries and to ensure the sustainability of the revenue base.

Our view is that the scale and sufficiency of Ireland's PRSI system should be brought fully into line with that of Western European norms over the medium-term. The process of gradually increasing both employer and self-employed PRSI should begin in earnest in Budget 2024. This process could begin with an increase in PRSI for the proportion of income in excess of €100,000. Such a measure would have no impact

Table 2.4: Decomposition of the ITR on labour in selected countries, 2019

Country	Employee PIT	Employee SSC	Employee Total	Employer SSC & PT	Total
EU27	12.6	8.6	21.1	17.0	38.1
Germany	*13.3*	*11.9*	25.2	12.9	38.1
Denmark	*33.2*	*0.1*	33.3	1.3	34.6
France	9.7	*6.8*	16.5	23.4	39.9
Netherlands	*10.7*	*10.4*	21.1	11.4	32.5
Belgium	*16.0*	*8.3*	24.3	16.1	40.4
Finland					
Sweden	*18.1*	*0.0*	18.1	20.9	43.8
United Kingdom	*12.6*	*5.2*	17.8	8.0	25.7
Ireland (Rep.)	*19.7*	*4.6*	24.3	9.2	33.5

Sources: See McDonnell (2021) How Heavy is the Weight of Tax in the Republic of Ireland – Some High Level Facts

Notes: PIT is Personal Income Tax. SSC is Social Security contribution. PT is Payroll Tax. Comparative data for 2021 is not yet available.

2 We can think of it as an economy-wide average effective tax rate on a particular type of economic activity (i.e. consumption, income from labour, or income from capital).

on lower paid workers but would nevertheless generate significant revenue. Over the medium-term the increase in employer PRSI should be extended to all employments.

2.3 Growth-friendly Tax Reforms

Taxes on wealth and property (capital stocks) are comparatively low relative to the EU average. OECD research[3] makes clear that the most growth friendly taxes are taxes on capital stocks (wealth) and property, and in particular taxes on immovable property. In addition, these taxes are generally progressive if properly designed. Household wealth tends to be much more unequally distributed than household income and this is indeed the case for Ireland. The NERI[4] has made a series of proposals for reforming the taxation of capital stocks. For example, the NERI propose that government should introduce a tax on net household wealth in excess of €1 million, and phase out various reliefs associated with Capital Acquisition Tax and with the Local Property Tax (LPT).

Taxes on the stock of wealth and on wealth transfers offer the most promising 'low hanging fruit' for increasing government revenue in the short term. Congress believes that reversing Ireland's under-taxation in this area should be progressed as soon as possible. This position is consistent with the Commission on Taxation and Welfare's view that the tax base should be reoriented in favour of higher taxes on capital.

Recommendation: Taxes on wealth, wealth transfers and capital in general should be increased gradually over the medium-term.

In addition, there should be a comprehensive item-by-item review of the system of tax expenditures (tax reliefs). Tax expenditures are a form of hidden public spending that tends to deliver larger benefits to higher income households. The Combat Poverty Agency previously pointed out that the impact of these types of relief is to undermine the principle that people should pay tax in proportion to their ability to pay.[5] Tax expenditures also cause economic distortions and are non-transparent. As tax expenditures narrow the tax base it becomes necessary to either set tax rates higher or to reduce the provision of public services and social transfers. Tax expenditures often have significant deadweight costs and can distort economic activity – as was evidenced by their role in the pre-2008 asset boom. All tax expenditures should therefore undergo regular rigorous and transparent cost benefit analyses that consider environmental and equity impacts and all tax expenditures should have a built-in sunset clause of no longer than three years.

Recommendation: The use of tax expenditures should be curtailed. Existing tax expenditures should undergo regular rigorous and transparent cost benefit analyses that fully consider environmental and equity impacts, potential distortions and deadweight losses.

3 OECD (2008) Do Tax Structures Affect Aggregate Economic Growth? Empirical Evidence from a Panel of OECD Countries, OECD Working Paper No 643

4 McDonnell, T. (2019) Taxing Property: Suggestions for Reform, July 2019, NERI Working Paper No 63

5 Combat Poverty Agency (2005) Submission to the Department of Finance on the Review of Tax Reliefs and Exemptions on High Earners

2.4 Congress Proposals

Overall, Congress is proposing the following measures on the revenue side:

1. **A modest net wealth tax on households with net assets worth more than €1 million**. Ability to pay relates to income and wealth – not just income. There is no justification for the absence of a modest tax on millionaire wealth.

2. **Significantly greater tax contributions from inherited wealth (CAT)**, including fundamental reforms to the system of CAT related tax expenditures and the treatment of inherited/gifted income. For example, substantial reductions in the CAT reliefs for agriculture and business would be prudent – these principally benefit very substantial inheritances and are unlikely to benefit the economy in any meaningful way. These reliefs should be abolished.

3. **Reforms to the system of tax expenditures related to CGT** e.g. reducing the generosity of retirement relief and entrepreneurs' relief[6], and treating death as a disposal for CGT purposes.

4. An **increase in the rate of the LPT** in Budget 2024, **as it applies to non-principal residences and to properties worth in excess of €1 million**.

5. **The introduction of a Site Value Tax (SVT)** alongside the existing LPT. An SVT would help reduce land and property prices and would be an economically efficient broadening of the tax base.

6. Reforms to social insurance should start in 2024 beginning with an **increase in employer and self-employed PRSI.** Self-employed PRSI should eventually be increased to that of the prevailing combined rate of employee and employer rate.

7. **The Special Assignee Relief Programme (SARP)** is extremely regressive and odious to any notion of fairness or equity. It **should be ended** in Budget 2024.

8. **Increases to existing taxes and the introduction of new taxes on pollutants** (e.g. diesel, cars, packaging, air travel, car parks, congestion charges, and single-use plastics) **and on other activities and items associated with negative health or social outcomes** (e.g. tobacco and betting).

9. **The Help to Buy scheme should be ended** at the earliest opportunity.

10. **The tax-free retirement lump sum and the Standard Fund Threshold** are both excessive and **should be reduced**.

11. The **R&D tax credit** carries enormous deadweight and **should be reformed** to better target micro and small businesses.[7]

6 Tax Strategy Group paper 23/05 Enterprise Supports estimates the cost of entrepreneurs' relief at €142.9 million in 2021 for 1,204 claims. This equates to an average cost of approximately €118,700 per claim.

7 Tax Strategy Group paper 22/03 (July 2022) indicates that the cost has increased from €355 million in 2018 to €658 million in 2020 and states that, 'It is expected that the cost will increase again in future years.'

12. The **tax relief for private health insurance should be eliminated** on a phased basis over the short-to-medium term. This relief is regressive and wholly inconsistent with the policy goal of universal healthcare and implementing Sláintecare.

Finally, Congress supports fundamental reform of the tax treatment of multinationals. Harmful tax competition and facilitation of aggressive tax planning should not form part of Ireland's tax policy toolkit in the future. Ireland should be one of the 'first movers' in implementing the new global policy regime and in supporting a UN led process inclusive of Global South countries. Failure to act risks further reputational damage for the country.

Harmful tax competition and facilitation of aggressive tax planning should not form part of Ireland's tax policy toolkit

3. Incomes and the Cost of Living

3.1 Expand public provision to reduce the cost of living

In 2022, Congress proposed a series of targeted measures concerning early years, education, housing, health and transport services, aimed at improving the provision of public services and mitigating the impact of the dramatic increase in the cost of living over the last couple of years, in particular its effects on low-paid workers and households on fixed incomes.

Congress acknowledges that a number of targeted as well as universal measures were introduced by government in Budget 2023 and then again in early 2023.

However, the cost of **early childhood education and care** (ECEC) services below age 3 has decreased significantly in recent years, but remains among the highest in the EU for most family types (European Commission, 2023:57). The OECD estimates that the net cost (i.e. after benefits aimed at reducing gross fees cost) of using full-time centre-based early years services for a couple earning the average wage amounts to 28% of the average wage, the second highest in the EU-27 and over twice the OECD average of 13% (OECD, 2023). Budget 2024 therefore needs to see further measures aimed at reducing the cost of early years services for more families. Such measures would also help eliminate barriers to women's labour market participation.

About one in five persons aged 15 and over did not hold any medical or GP visit card, nor any private insurance in 2021

To reduce **education** costs, Budget 2024 should see measures such as a permanent increase in the Back to School Clothing and Footwear Allowance (which is still below 2011 levels), further reductions in school transport charges, the continuation of the waiver of State Exam fees for Junior and Leaving Certificate in 2024, the extension of the Hot School Meals Programme (i.e. beyond DEIS primary schools)[8], as well as increases in the Student Maintenance Grant. The provision of free schoolbooks, workbooks and copybooks for children in recognised primary schools, including special schools, with effect from September 2023, should be extended to secondary schools.

To reduce **transport** costs, Budget 2024 should see further reductions in public transport fares as well as increased investment to support the expansion and increased range of public transport options, particularly in rural areas. Despite the reductions in public transport costs in 2022, 43.6% of the at-risk-of-poverty (AROP) population spend more than 6% of their income on transport in 2023, 6.5 percentage points above the EU average (European Commission, 2023:42).

8 Measures partially or fully introduced as part of the February 2023 cost of living package.

About one in five persons aged 15 and over did not hold any medical or GP visit card, nor any private insurance in 2021, and are thus subject to heavy user charges for many **health** care services (OECD, 2022:77). Approximately 2% of the population (aged 16 and over) self-reported an unmet need for medical care in 2021, with Ireland considered to be 'on average' under this EU Social Scoreboard headline indicator. To reduce health costs, Budget 2024 should implement Sláintecare recommendations that accessibility must be public service driven, with A) GPs and practice nurses on public service contracts, B) further extensions of the entitlement to the GP visit cards to additional children and adults,[9] C) further extensions to the medical card, and D) expansion of the Drugs Payment Scheme.

In addition, Budget 2024 should focus on increasing transparency and reducing the complexity in the awarding of medical cards to increase uptake (OECD, 2022:110). The number of medical card holders has fallen from 35.5% in 2016 to 30.8% in 2021, due in part to the introduction of free GP visit cards for certain cohorts from 2015 (Department of Health, 2022:54). However, GP visit cards do not provide access to other services covered by medical cards. Furthermore, it is estimated that 31% of eligible individuals do not take up a medical card. Total healthcare expenditure per annum is 2.6 times higher for eligible families who do not take up medical cards compared to families that do. This difference is largely due to higher GP and hospital costs and equates to over €200 per annum and approximately 1% of those families' disposable income (Keane et al, 2021).

Recommendation: Expand public service provision with a set of targeted measures aimed at reducing living costs, particularly for low-paid workers and households on fixed incomes.

3.2 Social welfare rates

Welfare rate increases should more than match inflation, with additional increases for persons most at risk of income inadequacy. This should be done as part of a multi-year strategy to benchmark rates against the median earnings of full-time workers, similar to benchmarking of the national minimum wage under the Directive on Adequate Minimum Wages. In response to the highest rates of inflation in almost 40 years, Congress recommends that social welfare rates be increased by €25 in 2024, with additional increases for those at greatest risk of income inadequacy. Budget 2024 should also introduce a (non-means-tested) cost of disability allowance to provide an additional weekly payment of €10-€40 for persons with a disability.

Recommendation: Increase core social welfare rates by €25, with additional increases for those most at risk of income inadequacy.

9 The extension of such services has contributed to increasing attendance at acute hospitals. This underlines the importance of fully implementing *Leading the Way – the National Strategy for the Future of Children's Nursing in Ireland 2021-2031* (2021) and the *Report of the Expert Review Body on Nursing and Midwifery* (2022).

3.3 Energy prices

Congress reiterates the importance of targeted fiscal measures to mitigate the impact of continued high energy prices on vulnerable households and low-paid workers. Energy prices are likely to remain elevated for a further two years; the Department of Finance suggests that the easing in wholesale electricity prices in the early months of 2023 could be passed-through to retail gas and electricity prices and possibly 'returning to their pre-war (first quarter of 2022) level '*by end-2025*' (Department of Finance, 2023:43, emphasis added). Measures to potentially consider could include a targeted temporary derogation from the public service obligation for low-paid workers and vulnerable households.

Recommendation: Target fiscal measures to mitigate the impact of high energy prices on vulnerable households

3.4 Pensions

Pre-1995 Civil and Public Servants and Cost of Living Supports

Many retired civil and public servants receive pensions based on relatively low final salaries and, in many cases, less than full service. By virtue of their social insurance status, those in employment prior to 6 April 1995 are not entitled to a social welfare pension and, by extension, may not have access to the cost of living supports introduced since 2022. Government should ensure that all citizens have equal access to cost of living supports.

Semi – State Pensioners.

A sizeable number of retired workers are receiving pensions from semi-state companies. A number of these previously worked in the civil service and transferred to the semi-state sector on the understanding their pension would have been no less favourable than what they would have received had they remained in the civil service. However, for a number of reasons, these retired workers' pensions have fallen behind those of former colleagues who remained with the civil service. Government should ensure that the semi-state sector meets its obligation to these retired semi-state workers.

Recommendation: Ensure that all retired civil and public servants have equal access to cost of living supports and that the semi-state sector meets its obligations to retired semi-state workers.

3.5 Expenses and allowances

Flat-rate Expenses

Congress' pre-budget submissions over recent years have called for the retention of the existing Flat-Rate Expenses (FRE) regime. These were reviewed by Revenue in 2018 and 2019. The Minister for Finance has more recently stated he has been advised by Revenue that they propose to 'broadly postpone full implementation' of the findings of the 2018 and 2019 review, pending 'further review of a number of FREs'.[10]

Recommendation: Congress reiterates its recommendation that the existing flat-rate expenses regime be maintained.

10 Written answer to written questions nos.11041/23 and 11053/23, 7 March 2023.

Eating-on-site Allowance

Revenue allow an employer to pay an ‘eating on site’ allowance of no more than €5 a day to site-based workers who meet certain criteria, on a tax-free basis. High rates of inflation over recent years has meant that the value of this allowance has decreased significantly. The ceiling for this allowance should be increased to €6.20 per day, and thereafter increased annually in line with price inflation.

Recommendation: Increase the eating-on-site allowance from €5 to €6.20 a day.

4. More and Better Jobs

4.1 Raising employment rates

'Low levels of employment, low levels of work, and high precarity lead to low levels of market income, and the groups with the lowest employment rates were among those most affected by poverty in the early 2000s, and remain so.' (NESC, 2023:27)

People with disabilities, single parents, Travellers, and persons living in very-low-work-intensity households still experience sizeable challenges in accessing labour markets'. (European Commission, May 2023:14)

It is an extremely positive development that the recovery in the labour market since the lifting of pandemic restrictions has been much faster than widely expected and that there are now more people at work than ever before as well as record low unemployment rates. Ireland is considered 'better than average' under the European Scoreboard employment rate headline indicator, with an rate of 78.2% (20-64) in 2022, 3.6 percentage points (pps) above the EU-27 rate (74.6%). In effect, Ireland has already achieved its employment rate target for 2030 agreed with the European Commission following the adoption of the EU's 2030 social targets at the May 2021 Porto Social Summit. Congress has previously recommended that Ireland should negotiate a higher target for 2030, as well as sub-targets for particular cohorts.

At the same time, 10 other EU member states had a higher employment rate than Ireland in 2022 with nine above 80%, and the Netherlands at nearly 83%. Clearly there is scope for improvement.

While the female employment rate has risen over recent years, Ireland's gender employment gap (11.3 pps) is eighth highest in the EU and above the EU average of 10.7 pps; Ireland's gender employment gap is considered 'to watch' under the European Social Scoreboard 2023. The 41.3 pps gap between the employment rate of people with disabilities and people without is one of the widest in the EU and compares to an EU average of 23 pps. Ireland is considered to be in a 'critical situation' on this indicator under the European Social Scoreboard 2023. While the employment rate of single parents has increased over the past decade, reaching 67.9% in 2021, this was still the second lowest in the EU. Similarly, a 2020 report by the EU Agency for Fundamental Rights on Ireland's Traveller community indicated that only 17% of women and 13% of men had paid jobs.

At 13% in 2021 (EU: 8.9%) Ireland had one of the highest rates of people living in very low work intensity households (i.e. where working-age adults work less than 20% of their work-time potential). The share of children living in such conditions also grew by 1.2 pps to 13.6%. Furthermore, a particularly high share of people with 'low' skills (35.2%) and persons with disabilities (36.7%) live in 'workless' households (European Commission, May 2023: Annex 14).

Recommendation: Focus employment supports and remove barriers to employment for cohorts facing greatest challenges in accessing employment, particularly people with disabilities, parents and guardians of young children, and people from disadvantaged backgrounds.

4.2 Raise the Minimum Wage towards a real Living Wage

The national minimum wage in 2023 remains below the estimated minimum living wage' (European Commission, May 2023:3)

The Directive on adequate minimum wages considers minimum wages adequate if they are fair in relation to the wage distribution and if they provide a decent standard of living for workers based on a full-time employment relationship. It provides for the use of 'indicative reference values' commonly used at international level to guide the assessment of adequacy, such as 60% of the gross median wage and 50% of the gross average wage, and/or indicative reference values used at national level, and for the use of real prices of a national basket of goods and services.

Using the OECD threshold for low pay (share of full-time workers earning less than two-thirds of gross median earnings of full-time workers) Ireland's rate of 18% in 2019 is the ninth-highest in the EU, fourth-highest in the euro area, and exceeds the average for both the EU and the OECD (NESC, 2023:24). It is also the highest rate among peer high-income European countries (Table 4.1).

The latest EU-wide estimates put Ireland's national minimum wage

Table 4.1: Proportion of low paid workers, %

IRL	Ger	UK	AUS	BEL	FIN	DEN	FRA	NL
18.0	17.0	16.7	15.0	12.0	9.9	8.7	7.8	6.0

Source: OECD. Latest year is 2021 for UK, Austria, France and Netherlands;2020 for Germany and Belgium; 2018 for Ireland and Finland; 2017 for Denmark. No data for Sweden and Norway.

Table 4.2: NMW in real terms over 2021-2023, % change

	2021	2022	2023	Cumulative 2021 -2023
National Minimum Wage Increases	1.0	2.9	7.6	11.8
Harmonised index of Consumer Prices	2.4	8.1	5.3[1]	16.6
Real Minimum Wage Increases	-1.4	-5.2	2.3	-4.8%

1 2023 inflation figure is a projection from the Central Bank's latest Quarterly Bulletin

below 50% of the gross median wages of full-time workers and below 40% of the gross average wage of full-time workers in 2021 (latest year available).[11]

Since 2021, Ireland has experienced the highest rate of inflation in almost 40 years. The increases in the NMW over 2021-2023 have failed to keep pace with inflation, resulting in a decline in the value of the NMW in real terms over this period (Table 4.2).

Ireland's minimum wage of €11.30 in 2023 is now €2.55 below (81.6%) the Living Wage Technical Group's recommended living wage of €13.85 for 2022-2023 for a full-time worker with no dependents.

Recommendation: Congress's submission to the Low Pay Commission for the minimum wage in 2024 recommended an increase of €2 (17.7%) from €11.30 to €13.30 in January 2024.

4.3 Brexit – prepare for UK import controls on east-west trade

Ireland's allocation under the EU Brexit Adjustment Reserve (BAR) is €1.165 billion to support measures to counteract the effects of Brexit between January 2020 and December 2023. In March 2023, Ireland availed of the opportunity to transfer €150m of the BAR allocation to support priorities under the REPowerEU initiative (aimed at reducing dependence on Russian fossil fuel) reducing Ireland's BAR allocation to €1.015 billion (Government of Ireland, April 2023:86-87).

Between October 2021 and May 2023, €389 million of the BAR allocation was provided across a range of sectors[12]. The government is now reviewing 'Brexit-related spending' from 1 January 2020 to December 2023 for possible inclusion in Ireland's final BAR claim, due in September 2024, and 'approximately €0.7 billion has been identified in this regard'.[13]

However, trading relations with the UK do not yet include restrictions on Irish goods exports to Great Britain and full implementation of the TCA could hurt Irish exports (OECD, 2022:21). The Department of Finance has assumed that 'further UK import controls will be phased in and will apply to east-west trade from October 2023', with 'particular implications for the Irish agri-food sector' (Department of Finance, April 2023: 9). It is still not clear though when these controls will be introduced.

Budget 2024 should therefore allocate funding to support 'job creation and protection, including green jobs, short-time work schemes, re-skilling and training in sectors most adversely affected'. Given that the main impact of the UK's controls may not be until after October 2023 or later, the government should consider seeking an extension of the eligibility period beyond December 2023, if required. All BAR

11 EU Joint Employment Report 2023, p.52. This report was adopted by the EPSCO Council on 16 March 2023, with Minister of State Neale Richmond TD representing Ireland.
12 €271m was allocated to the Department of Agriculture, Food and the Marine, €37.5m to the Department of Further and Higher Education, Research, Innovation and Science, €24m to the Department of Environment, Climate and Communications, €21.5m to the Department of Justice, €15m to other departments.
13 Written answer to Dáil written question no.22041/03, 11 May 2023.

expenditure should be conditional on adherence to the emphasis in the BAR regulation on creating and maintaining quality employment, the European Pillar of Social Rights, and dialogue with the social partners when designing supports.

Recommendation: Allocate a proportion of the Brexit Adjustment Reserve to creating and maintaining quality jobs in sectors and regions most affected.

4.4 Introduce a real Short-Time Work Scheme (STWS)

Congress has been advocating for a number of years for the introduction of a real short-time work scheme, modelled on the most effective schemes in place in other European countries such as Germany, Austria and the Nordics[14]. Such schemes are based on social dialogue and collective bargaining. The OECD has previously drawn attention to the fact that these initiatives, 'illustrate how social dialogue and collective bargaining can be mobilised to complement public action, identify flexible and balanced solutions for both companies and workers and strengthen labour market resilience' (OECD, 2020:52).

Congress therefore welcomed the commitment in Pathways to Work 2021-2025 (2021) to consider the introduction of such a scheme drawing on existing international models. However, the government's 'strawman document' (December 2022) on the introduction of pay-related jobseekers' benefit scheme appears to indicate an abandonment of this commitment by suggesting merely modifying the pre-existing 'Systematic Short-Time Work Support Scheme'. The fact that the pre-existing scheme was not fit for purpose was demonstrated by the need to introduce the Temporary Wage Subsidy Scheme (TWSS) almost overnight in March 2020. While 460,000 workers were supported by the TWSS by May 2020, the numbers supported by the pre-existing scheme never rose above 1,600 (in March 2021) over the course of the lock-downs (European Commission, September 2022:76). Congress therefore reiterates its call for the introduction of a real short-time work scheme.

Recommendation: introduce a real short-time work scheme

4.5 Promote Decent Work

'Low pay, low hours of work available, and precarity are features in many firms and sectors, and are a reality of life for many workers.' (NESC, 2023:25)

NESC recommends a number of specific measures, including the transposition of the Directive on Adequate Minimum Wages in order to strengthen the national system of collective bargaining and to increase collective bargaining coverage to make work more attractive, and states that 'adoption of this Directive is viewed as supporting a model of competition in the European single market predicated on high social standards, innovation, and productivity improvements rather than on a 'race to the bottom' in terms of pay and conditions' (NESC, 2023:38).

14 For example, Congress's October 2019 Submission to the Oireachtas Joint Committee on Business, Enterprise and Innovation in relation to Brexit Preparations.

The Directive obliges all member states to take appropriate measures to ensure that, in accordance with existing EU legislation, in the awarding and performance of public procurement or concession contracts, economic operators and their subcontractors comply with applicable obligations regarding wages, the right to organise and collective bargaining. Furthermore, Ireland is committed under EU law to introduce some social conditionality in respect of CAP payments by January 2025 at the latest.

All public funding, including public procurement and state aid, should be conditional on public policy objectives, in particular social requirements, in order to offer high-quality jobs, promote collective bargaining, respect for labour rights and standards, and ensure improved working conditions.

Recommendation: Ensure all public funding, including public procurement and state aid comes with social conditions to promote decent work, respect for labour rights and collective bargaining.

4.6 Transition the Banking Levy into a Transformation Levy

The Banking Levy has been in place since 2014 and has been extended at each budget since then. Government is now seeking options for the future of the levy in the years to come. The current banking levy should become a banking transformation levy. Whereas the current banking levy was designed to address the legacy of the Great Financial Crash and the support provided by government at that time, the Transformation Levy would be designed to create a partnership to influence and guide the organisation and nature of the banking industry in the future. This would be modelled on the structure of the Apprenticeship Levy introduced in the UK in 2016. Under this model, institutions would continue to pay the levy but would also be able to bid for funds generated from the levy for actions that would enhance the role of banking for society.

Recommendation: Transition the Banking Levy into a Transformation Levy

4.7 Raise Class S PRSI rates

'...certain legal forms may be rendered more advantageous by virtue of their tax or social insurance treatment alone. These differences could also be addressed by eliminating the distinctions between the Class A and Class S rates of PRSI, as well as by introducing rules to prevent the exploitation of any differences that are intended to serve a clear economic or policy purpose.' (COTW, 2022: 272)

'...the impact of the reduced rate of self-employed PRSI in incentivising the use of self-employment contracts and potentially the mis-classification of work as self-employed rather than employed has been noted on a number of occasions.' (Tax Strategy Group 23/02:5).

Congress's 2022 submission to the Commission on Taxation and Welfare (COTW) recommended an increase in the rate of PRSI on self-employment (Class S) to that of the combined total of an employee and employer (i.e. 15.05%). Congress's Budget 2023 submission recommended that this be done over a number of budgets, starting with Budget 2023. The COTW's final report recommends that the rate of PRSI on self-employment be aligned over time with the employer's rate of Class A PRSI attaching to employment (currently 11.05%) in order to 'minimise the distinctions between legal forms and to treat similar activity in similar ways' (Commission on Taxation and Welfare, 2022).

As the Department of Social Protection has previously pointed out, even moving to a rate of 11.05%, the rate of social insurance for self-employed workers would still be 'over 10% less than the current EU average' (Department of Social Protection, 2022:19).

Recommendation: The rate of PRSI on self-employment should be aligned over time to that of the combined total of an employee and employer (currently 15.05%) and in tandem with raising the employers' rate of PRSI (see section 2).

4.8 Reinstate Tax Relief for Trade Union Subscriptions

The 2016 report on tax expenditures rejected Congress's recommendation to re-instate the system in place between 2001 and 2011 of relief for trade union subscriptions on the grounds that it 'would have no justifiable policy rationale and does not express a defined policy objective'. This system had cost €26.9m at peak in 2009. The OECD points out that an increase in the level of subsidy of a similar scheme in Norway, from 7% in 2001 to 21% in 2021 of the average membership fee, 'was important for slowing the decline in trade union density', and that Sweden reintroduced a similar subsidy that had been abolished in 2007 (OECD, 2019:128).

In October 2022, Ireland supported the adoption of the Directive on adequate minimum wages. This commits Ireland to promote collective bargaining, such as by promoting 'the building and strengthening of the *capacity* of the social partners to engage in collective bargaining on wage-setting, in particular at sector or cross-industry level', and by encouraging 'negotiations on wages between the social partners, *on an equal footing'* (Article 4(1) emphasis added).

Given that subscriptions to employers' organisations and to the IFA are tax deductible, re-instatement of the system in place between 2001 and 2011 is one way of meeting Ireland's commitments under the Directive.

Recommendation: Reinstate tax relief for trade union subscriptions

5. Structural and investment priorities

'The most obvious current challenge arising from our population growth is in the area of housing. There will also be a need for increased public investment in a range of areas including health and social care, childcare, education, training, energy and water infrastructure, broadband, and public transport.' (NESC, 2023:5)

5.1 Housing

Shortages of social housing have created long waiting lists, have resulted in an over-reliance on short-term rent supplement solutions for 75 000 families, and have contributed to a steep increase in homeless people…' (European Commission, May 2023:5)

Total public expenditure on housing has been increased from €5.3 billion in 2020 to an estimated €6.4 billion in 2023 (20.5%), with capital expenditure up from €2.2 billion to €3.5 billion (59%) and current expenditure down from €3.1 billion to €2.9 billion (-8%). Despite the overall increase, housing supply is still falling far short of demand.

Housing completions stagnated in 2020 and 2021 at approximately 20,500 per annum. Just under 13,000 social housing units have been built, 2,900 units acquired, and 5,400 leased between 2020 and Q3 2022 (Department of Housing, 2023). Spending on the Housing Assistance Payment (HAP), the Rental Accommodation Scheme (RAS) and the Social Housing Current Expenditure Programme (SHCEP) rose from €655m in 2019, to €793m in 2020. While new social housing units built in 2022 increased by more than 43% year-on-year, to around 7,500, the government has missed its initial target by around 1,500 units (European Commission, May 2023:11).

The OECD estimates the number of dwellings per 1000 inhabitants decreased from 436 in 2011 to 416 in 2019, against an average increase from 444 to 468 in OECD countries (OECD, 2022:43).

The government's National Risk Assessment (July 2023) states that, 'Housing shortage and pricing issues are unlikely to rectify themselves over the short term…' (Department of the Taoiseach, August 2023:21).

Official policy on housing must be fundamentally reshaped and redirected away from its unhealthy reliance and dependency on private sector provision and towards a far greater and more central role for the state in the delivery of public, cost rental and affordable purchase housing. The over-arching focus of policy must be on provision of secure, affordable homes for all.

The commitment to fund on average 2,000 cost-rental homes per year until 2030, and the target of achieving rents at least 25% below market level should be substantially revised to increase the number of cost-rental homes provided annually and to further enhance affordability. In Q3 2022, average monthly rent for new tenancies in Dublin reached over €2,000 (Residential Tenancy Board (2023).

As of June, 12,600 people were in emergency accommodation, a figure that is forecast to rise further over 2023 due to the decision to end the eviction ban in March. At the same time, the government has extended the Help to Buy scheme, which the OECD has criticised for having 'the potential to increase price pressures in the short run in a supply-constrained market (OECD, 2022:45).

The government estimates that approximately 50,800 new entrants to the construction sector are needed over the period 2023-2030 in order to meet existing government housing and retrofitting targets (DFHERIS, 2022). Budget 2023 did see additional supports for craft apprenticeship programmes. In 2022, there were approximately 5,600 registrations for construction and construction-related apprenticeships.[15]

However, while the government acknowledges that completion rates are rarely above 75%, it does not consider why this is the case. (DFHERIS, 2022:7). The OECD by contrast acknowledges the role of poor pay, pointing out that in a first year of a construction apprenticeship in 2022, pay was one third of the fully qualified pay, and at €6.84 per hour, compares very badly to a minimum wage of €10.50 per hour (OECD, 2022:86). Budget 2024 should provide additional support to increase the inflow of workers to construction training and apprenticeships, including the abolition of the exemption from the minimum wage for apprentices.

Recommendation: Increase investment for construction of high-quality, affordable A-rated social and cost-rental housing; increase support to attract workers to construction training and apprenticeships, including by abolishing exemption of apprenticeships from the minimum wage, prioritise provision of subsidised housing close to workplace for essential workers.

5.2 Healthcare

Between 2013 and 2019, health spending per capita increased by an average of 2.1% per year in real terms, below the 3% average EU yearly increase. Between 2019 and 2020, the relative share of health expenditure dedicated to prevention rose from 2.7% to 3.3%, slightly below the EU average (European Commission, May 2023:61).

The European Commission again notes that Ireland is the only EU country 'without universal primary care coverage, which leads to an overuse of more expensive hospital care', and that Ireland's Recovery and Resilience Plan does not address the lack of universal primary care coverage. It states that fully implementing the Sláintecare reforms has the potential to increase the accessibility of health and long-term care, thereby reducing the demand for more complex and costly services, but that the 'timing, cost,

15 Written answer to written question no.6946/23, 14 February 2023.

and exact scope of some reforms are yet to be fully determined' (European Commission, May 2023:13).

NESC states that the proportion of intensive care and acute care beds in Ireland is well below the OECD average, that occupancy rates are too high, and that waiting lists are long for some services, such as out-patient services, and other services such as speech and language therapy, ophthalmology, and psychology (NESC, 2023: 21). Payments towards voluntary health insurance represents nearly 11% of total health spending, more than double the EU average, as a result of the fact that almost half of the population acquires private health insurance 'to bypass the long, persistent waiting lists in the public system' (European Commission, May 2023:61).

Despite increases over the last decade, Ireland still has fewer practicing doctors - 4.0 per 1,000 population in 2021 compared to the EU average of 8.3 in 2020: 'Taxing working conditions and the comparative advantages of practising overseas in other English-speaking, high-income countries are key drivers that motivate an increasing number of early-career Irish-trained doctors to emigrate' (European Commission, May 2023:62).

OECD data indicates there are 5.8 nurses and midwives per 1,000 of population16, above the OECD average of 5.1 but below the levels of other high-income peer countries, such as 7.4 in Denmark, 7.2 in Belgium, 6.6 in the UK, and 6.4 in Germany (OECD, 2022, Figure 2.19, p.88). It notes that the staffing moratoria after 2008 mainly affected nurses, with frontline staff numbers reduced by 3%, largely driven by a contraction in the number of non-specialised nurses, and further notes that 'salary reductions in the range of 5% to 20%, depending on qualifications and incomes... were reversed only recently' (OECD, 2022:77).

The OECD also acknowledges concerns that the relative lack of post-graduate education opportunities may partly explain the healthcare system's difficulties in retaining domestically-trained nurses, who account for 53% of all nurses in 2021 (OECD, 2022:78). Similarly, NESC cites concerns that just over 40% of the most recent graduating class of one large nursing teaching hospital now remains in Ireland, with the lack of affordable housing being a major factor in nurses choosing not to work in the hospital (NESC 2023:21).17

Recommendation: Prioritise investment on prevention, and provision of universal primary care

5.3 Long-Term Care

One of the key findings and policy considerations of the 2020 Covid-19 Nursing Homes Expert Panel was that highly dependent persons can live safely and more happily in domestic settings, provided their required homecare supports are in place (Department of Health, 2020:78). More

16 It should be noted that doubts have been expressed about this data on the grounds that it does not concern actually working nurses.

17 NESC points out that almost 5,000 new employment permits were issued for the healthcare sector in 2021 (NESC, 2023:21)

recently, the OECD has cited evidence from the Irish Nurses and Midwives Organisation (INMO) to note that 'in part, the relative underdevelopment of primary and long-term care has put pressure on hospitals (OECD, 2022:88).

In December 2022, Ireland supported the adoption of the EU Recommendation on access to affordable high-quality long-term care. This Recommendation states that everyone has the right to affordable long-term care services of good quality, in particular home care and community-based services and commits to supporting quality employment and fair working conditions in long-term care. The government has to report by July 2024 on the measures taken or planned to implement the Recommendation.

Budget 2024 needs to see increased investment in the development of a model of long-term care that ensures affordable, accessible high-quality long-term care options, with improved working conditions.

Recommendation: Increase investment to develop a model of affordable, accessible high-quality long-term care, and improved working conditions for long-term care workers.

5.4 Early Years

Congress acknowledges and welcomes the substantial increases in expenditure on early years services over recent years. However, the high cost of accessing early years services contributes to the low participation of children under 3 years (16.6%) in formal early years services - the EU Social Scoreboard judges Ireland to be in a 'critical situation' in respect of this headline indicator – and it remains a barrier to women's labour market participation.

The OECD has recommended that the government continue 'to couple adequate public financial support for childcare with measures to expand childcare capacity' (OECD, 2022:57). The European Commission states that 'Ireland's market-driven approach to early years services leaves marginalised communities underserved as private providers do not operate in very disadvantaged areas (European Commission, May 2023:57), and that recent reforms to the funding model are transforming the private ECEC sector to one that is 'increasingly publicly funded and managed'. It also acknowledges that low wages and poor working conditions remain a major challenge for this sector (European Commission, May 2023:59).

Recommendation: Re-instate the early years model in place during the lockdowns, with lower fees for parents, and with improved terms and conditions for staff.

5.5 Education

Quality public education is a fundamental human right and public good. Ireland performs relatively well compared to other EU countries in respect of a number of key educational outcomes. Participation rates are among the highest in the OECD at all levels. Ireland has the second lowest proportion of 18-24 year olds who leave school early (3.7% in 2022, but 4.7% for males compared to 2.8% for females and 10.7% among people with disabilities) and the highest proportion of 25-34 year olds with a third-level qualification (62% in 2022, compared to an EU average of 42%).

The rate of young people (15-29) who are neither in employment nor in education or training (NEETs) was 8.7% in 2022, below the EU average of 11.5%, though the rate for young people born outside of the EU was higher than the rate for young people born in Ireland and the EU-27.

Irish primary and post primary pupils are in the top performing cohort of pupils in literacy, numeracy and science education.

While the latest EU data indicates that public expenditure on education in 2019 was 5.5% of GNI*, compared to an EU average of 4.7% of GDP, the latest OECD data confirms that public expenditure *per pupil* for primary, secondary and tertiary in 2019 remained below EU averages. Furthermore, public expenditure on education in 2023 (€10.0 billion) was 7.8% below 2019 levels of €10.9 billion. Primary/lower-secondary and tertiary levels of spending would need to increase by a quarter and a third respectively in order to reach the peer European countries average.

Early in 2022, the Department of Further and Higher Education, Research, Innovation and Science identified a need to increase 'core funding' current spending on higher education by €307m annually, to improve the quality of programmes, their outcomes, and providing a third-level education system which is accessible to everyone in society. The full €307m (adjusted for inflation) should be provided in Budget 2024.

Investing more in teachers is the single most important factor in achieving quality education. The latest OECD data indicates that class sizes in Ireland remain above international norms. In 2019, primary school class contain on average four pupils more than classes in the EU-22 average (24 compared to 20) and second highest (after the UK) of other high-income European countries.

The European Commission notes that teacher supply remains a significant challenge, in particular in urban centres, and states that the high cost of living (especially accommodation) in larger cities is a major disincentive to teachers taking up temporary posts, and acknowledges teacher unions calls for permanent, full-time positions for all teachers, moving away from low-hour temporary employment contracts (European Commission, 2022:59).

The OECD recognises that school leadership is a priority in education systems across the world and that policy makers need to enhance the quality of school leadership and make it sustainable. The distribution of school leadership can strengthen the overall leadership capacity of schools and help schools meet the challenges they face. There must be investment in supporting school leaders and in ensuring that distributed leadership is enhanced through both additional posts and professional development.

Both people with disabilities and Travellers tend to have low levels of educational attainment, highlighting the need for a more inclusive education system. People with disabilities still have a 20% higher chance of having a low education (primary or lower-secondary) level than their peers without a disability (European Commission, 2023:59).

NESC notes that some groups are not achieving their potential in the education system and that educational achievements are lowest for people from disadvantaged backgrounds (NESC 2023:40). This in turn highlights the need for further efforts to address the digital divide and enhancing digital skills. Students' fees remain high, which also creates accessibility issues.

Recommendation: Increase investment in education at all levels, to bring expenditure per pupil up to peer countries' average over the medium-term, to reduce class sizes, to address teacher supply problems, and to achieve a more inclusive education system.

5.6 Just Green and Digital Transitions

'Employment in Ireland's sectors most affected by the green transition remains almost stable, but workers in declining activities need active support.' (European Commission, May 2023:41)

70% of the Irish population (16-74) report having 'at least basic digital skills' (including information and data literacy, digital content creation, etc) in 2021. This is above the EU average and is third highest in the EU. At the same time, this still leaves 30% of the adult population lacking basic digital skills. Ireland is nine pps below Finland and the Netherlands. The Adult Literacy for Life Strategy (2021) aims to ensure 80% of the adult population have at least basic digital skills by 2030. However, adults with comparatively weak socio-economic profiles (e.g. lower social classes, low education levels) self-report that their digital skills are below average (OECD, 2023:21) as well as older individuals (SOLAS, 2021).

Labour shortages in key sectors for the green transition have increased in recent years. This is creating bottlenecks in the transition to a net-zero economy. In 2022, labour shortages were reported for 12 occupations that required specific skills or knowledge for the green transition, including environmental protection professionals, engineering professionals and electrical engineers (European Commission, May 2023:9).

11.8% of the population (25-64) stated that they had received formal or non-formal education and training in the four weeks preceding the survey in 2022. This was the 14th lowest of the EU-27, was just below the EU average of 11.9% and compares to a high of 36.2% in Sweden. The OECD now recommends that Ireland assess 'the feasibility of individual learning schemes and paid training leave in Ireland's context' and considering 'the option of establishing a statutory right to lifelong learning in Ireland and linking this right to the existing and proposed supports for engaging in lifelong learning' (OECD, 2023:49). In addition, the EU's country specific recommendations to Ireland for 2023/2024 call on government to 'step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition'.

Policy in this area must also accord with ILO Guidelines on implementation of a Just Transition, in particular as regards the need for strong systems of social dialogue, as part of the response.

Recommendation: Increase investment in digital skills and in green skills, including by introducing paid training leave.

5.7 Overseas Development Aid

Congress once again calls on government to set out a clear short-term pathway in Budget 2024 towards ensuring that Ireland meets its obligation to raise Overseas Development Aid to at least 0.7% of GNI*. This pathway should ensure that at least 0.15% of GNI* goes to the Least Developed Countries (LDCs), in line with SDG 10.b, to prioritise the attainment of SDG 8, and to support debt cancellation and debt restructuring for poorer countries.

Recommendation: Set out a path towards raising ODA to 0.7% of GNI*

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