The Labour Party Submission to the Commission on Taxation and Welfare

(The Commission)

January 2022

Introduction & Summary

- We welcome the establishment of this independent body to "review how best the taxation and welfare system can support economic activity and income redistribution, whilst promoting increased employment and prosperity in a resilient, inclusive and sustainable way and ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term."
- The Labour Party believes that the resilience of the tax system is an important factor in the sustainability of the public finances. It is our view that the prioritisation of one tax objective over another is a political decision, and it and the consequent outcomes should be as transparent as possible.
- We also believe that significant work must be undertaken to ensure that citizens are aware of the clear link between public expenditure and taxation. The understanding of this connection must be strengthened.
- We also believe that an equitable taxation and welfare system is key to addressing both income and wealth inequality which will be one of the defining challenges of the coming decades.
- We note with concern that despite the commitment within the Programme for Government (PfG) to "utilise taxation measures, as well as expenditure measures, to close the deficit and fund public services, if required", the Government has stated that it "will (only) focus any tax rises on those taxes that tax behaviours with negative externalities, such as carbon tax, sugar tax, and plastics".
- To effectively rule out raising additional revenue through changes to existing taxes on income and wealth, for example, or the introduction of new forms of taxation more generally is in our view a mistake, especially when viewed against the backdrop of the need for substantial investment in housing, healthcare (to make Sláintecare a reality) and to enable the State to meet its climate action targets.
- It is important that the Commission's position is not excessively influenced by the current government's position in this regard.
- To focus again on 'tax behaviours', it is clear that 'behavioural taxes' are not intended as a long-term revenue stream, but instead to reduce or eliminate negative behaviours (i.e., with the expectation that revenues from such taxes will decrease overtime).

Moreover, we are concerned that such consumption taxes have a disproportionate impact on the less well-off and should be tactfully used with explicit objectives (e.g., ringfencing of carbon tax revenues for home retrofitting) and with mitigation measures for citizens on lower incomes.

- Regarding current tax revenues, we note that according to the Annual Tax Report (2021, 3-4), Income tax (c. 40%), VAT (c.22%) and Corporation Tax (c.20%) account for approximately 82% of 2020's tax receipts.
- We note recent ESRI research (2020)[1] which states that since the 1990s, economic activities that are responsible for a relatively higher portion of tax take are consumption and labour taxes while taxes on capital have steadily fallen.
- Additionally, we also note expert academic evidence which suggests that for every €5 collected in taxation and social insurance, the state currently decides not to collect an additional €1 which is foregone through the provision of various tax breaks and reliefs[2]. Moreover, a significant number of reliefs are not structural to the taxation system but rather have been put in place to incentivise certain activities or as a means of pursuing certain policy objectives.
- Consequently, we share the sentiments of the Central Bank, ICTU and others that there is a need to broaden the tax base, reduce many tax reliefs and change certain tax rates to address permanent current expenditure increases that will arise from this investment and to achieve sustainable and balanced long-run growth[3].

Labour's View on the design of a good system of taxation

- The design of a good system of taxation is complex because there are trade-offs between competing objectives. The main objectives of a good taxation system are raising revenue, efficiency, equity, neutrality, and consistency. Other objectives would include simplicity and minimisation of exemptions.

[1] Effective tax rates in Ireland (esri.ie)
[2] Reform of 'discretionary' tax expenditures could soften financial costs of COVID, Oireachtas committee hears (ucd.ie)
[3] https://www.centralbank.ie/docs/default-source/publications/correspondence/dept-of-finance-correspondence/30-july-2021-pre-budget-letter-to-minister-for-finance-paschal-donohoe.pdf

- We note that the Mirrlees Review (2011, 36[4]) defines 'optimal tax theory' as 'the choice of a system of taxation that balances efficiency losses against the government's desire for redistribution and the need to raise revenue. It provides a way of thinking rigorously about these trade-offs and ensuring that value judgements reflecting concerns about income distribution and well-being are made explicit while the efficiency costs of achieving that redistribution are properly taken into account'.
- Additionally, the Mirrlees Review points out that it is important to be aware of the trade-offs and to set out the objectives of tax policy and then identify the constraints under which the system operates. For instance, while a good tax system should seek to minimise distortions which impose inefficiencies, we believe it is erroneous to focus only on one of the principles of taxation.
- Moreover, the prioritisation of one objective over another is a political decision, and it and the consequent outcomes should be as transparent as possible.
- We recognise that the design of national systems of taxation are a product of history, culture, and political economy. They have typically evolved haphazardly over time, under political influence from electorates, competing governments and more recently global pressures and thus are seldom anywhere near perfect. In so far as it possible, tax systems should be developed in ways which minimise inefficiency, inequity and raise the amount of revenue so desired by governments. Tax systems are the main source of funding for a state and importantly for redistribution.
- We note that Diamond and Saez (2011) make three strong recommendations on the design of a good tax system. First, they recommend that very high-income earners should be subject to high and rising rates, secondly, the earnings of low-income earners should be subsidised and thirdly, capital should be taxed. This view is in deep conflict with the dominant ideology of low taxes on direct incomes and privileges for owners of capital. Yet it demonstrates that there is an alternative and it is one which would be beneficial for the vast majority of people.
- The current attempts to reduce the design of taxes into a purely 'technical' analysis, as the hierarchy of taxes argument does, especially when it is one-dimensional, lacks transparency and is incorrect. This is particularly so when it is promoted as a 'truth' or

[4] Tax by design - Institute For Fiscal Studies - IFS

an 'economic law.' For even if the viewpoint is based on prevailing economic data and analysis, it is ultimately the result of political choices.

- For instance, we note Goldrick-Kelly's (2014) analysis of the total tax take, including social contributions (since these are compulsory payments) in Ireland compared to other, sizable, and high income (output per head over €30,000) western European countries (in 2018). In short, he finds that Ireland showed a tax gap of €2,255 per person and concluded that Ireland could collect an extra €11 billion if we adopted European norms.
- Thus, there is substantial room to provide much more and better public services, deliver the structural reforms we need like Sláintecare and universal public childcare, tackle child poverty and economic inequality, prepare for an ageing population, while also making the massive investments needed in public housing and climate adaptation, by raising the yield from Irish taxation closer to EU levels.
- Moreover, it is necessary to develop a clear link between public expenditure and taxation. We believe the Commission should make a strong argument in its report on the need to better educate and inform the public on the role of taxation and on the link between improved public services and taxation. For instance, the "Citizen's guide to the Budget" sets out in simple terms where the money comes from, where it is spent, what it means for the person, climate action, capital investment and so on.
- It is further the view of the Labour Party that public services should be highly efficient and responsive to the public's needs so that people understand that their tax is well spent. Further the Commission should urge the government and the Revenue to show each taxpayer at every opportunity where taxation is spent in broad terms/headings.

Overview of Taxation Revenues

i) Income Taxes:

- With regard to income taxes, which equated to 40% of total net exchequer tax receipts collected for 2020, we share the concerns of the Parliamentary Budget Office and others with regards to the fiscal sustainability of this revenue stream (PBO 2021[5]).

[5] Parliamentary Budget Office – Post-Budget 2022 Commentary - Publication 33 of 2021 (oireachtas.ie)

- Ireland's income tax and USC system are progressive. We note the high concentration of income tax receipts at the top of the income distribution, with the top 1% of income earners contributing over one-fifth of income tax revenues and the top 25% having contributed to around four-fifths of income tax receipts in 2020 (PBO 2021). These features and trends have been confirmed in the 2021 Exchequer returns.
- We are particularly concerned that according to 2018 data (PBO pre-budget report, 2018), workers in multinational firms account for over a fifth of all income tax paid in the State. These are good jobs, but this concentration poses a systemic risk to the tax base.
- We also note that over a third of workers are outside the income tax net. The Labour Party believe that proven measures to increase (long-static) wage/salary rates, such as the introduction of full collective bargaining and trade union rights, will allow more workers (particularly those on low-incomes and in insecure work) to increase their earnings and come within the framework of the current tax framework.
- Additionally, we are concerned that Budget 2022 measures (including the increases in the standard rate tax band threshold, the threshold for the second rate of USC and the changes in tax credits) resulted in a narrowing the tax base.
- Moreover, although Ireland's income tax system is highly progressive, it is clear it does not address the high level of pre-tax market and wealth inequalities that bedevil our society. In short, we believe that other measures, such as the achievement of full collective bargaining and trade union rights up to European norms, the transformation of the National Minimum Wage to a real living wage and targeted taxes on wealth are required to achieve equitable redistribution aimed at enhancing the overall productive capacity of the economy.
- The programme of the preceding Fine Gael-led minority government (2016 to 2020) included a commitment to the phasing out of tax reliefs for high earners. This was not implemented, and we would ask the Commission to examine this matter again for high earners, alongside the introduction of refundable tax credits for lower earners. The Department of Finance has not been able to provide a costing for refundable income tax credits in recent budget submissions by the Labour Party. This stands in stark contrast to the availability of refundable R&D credits for corporations. The careful design of such a

system would be vital but is feasible now with the modernisation and digitisation of PAYE and other Revenue systems.

- With the stated Government objective of rolling out a national auto-enrolment pension scheme, the Commission should consider carefully the current reliefs available for private pension savings, and provide a detailed analysis of who currently benefits from the generous rate of marginal relief as the substantial cost of this tax expenditure appears to overwhelmingly benefit the highest paid and the pension industry overall, while the evidence that this relief incentivises retirement saving is not robust. An in-depth study looking at the income distribution and beneficiaries of pension reliefs would be timely and would help inform future policy decisions.

ii) PRSI

- Regarding total social security contributions (employer and employee), we note that according to research (ESRI 2020), Ireland's effective rate has been consistently below the EU average since the mid 1990's (i.e., 16.5% low - 18.5% high Irish average versus 29.3% low – 31.3% high EU average). There is scope to raise, over time, more from Irish employers and in so doing bring Ireland into line with EU norms.
- We note the ICTU "No Going Back" (2020, 32) finding that "Labour taxes – i.e., taxes and contributions linked to wages, transfer payments and pensions – are the major source of the overall gaps in revenue receipts in both the Republic of Ireland" compared to Western European peer countries.
- Specifically, we note that in Ireland, "the state would have collected nearly €9 billion in additional receipts at average tax levels in 2018" and that "(r)aising employer taxes to comparator averages would close nearly four of every five euros of the aggregate tax gap" (ICTU 2020, 33).
- Hence, the Labour Party believe the Commission must propose timely measures to close this gap and increase PRSI contributions on employers in line with the EU average. Additionally, while targeted increases in employee PRSI could also be considered, this should only be done while recognising the context of an already high proportion of the overall tax take taken in (employee) labour taxes and how the USC may be restructured as a contribution towards the health service or integrated into social insurance.

- A large gap in Ireland's social security system is the lack of income linked social welfare benefits and a comparison by the Commission of provision in other EU countries would be welcome, alongside an analysis of the funding mechanisms used. The Labour Party supports the re-introduction of this model in Ireland as the PUP has shown the inadequacy of the current system and the need for higher rates of benefits, not just for jobseekers, but also for maternity and other parental leave benefits in particular.
- We note that "(e)conomic activity carried out via self-employment is subject to less tax than that carried out through employment". This generates a "substantial gap" in the total tax charge associated with each form of employment (ESRI 2021, 30-31)[6]
- Moreover, we are concerned that this may lead to an increased prevalence of bogus-self-employment (Roantree et al. (2018), NESC (2020) and Milanez and Bratta (2019). Specifically, we note evidence provided to the Oireachtas Public Accounts Committee (PAC) which estimates the cost of bogus self-employment at up to €1bn a year in lost PRSI contributions.
- In recent years, the Labour Party has proposed two separate legislative solutions that would address the problem of false self-employment from a taxation, social insurance and employment status point of view. We believe it is incumbent on the Commission to take a view on this insidious phenomenon, at the very least through the lens of the body's tax and welfare terms of reference.
- We also note that "recent reforms have extended eligibility for the vast majority of these (social insurance related) benefits to the self-employed" and that "(t)he Department of Employment Affairs and Social Protection (2020) found that these changes mean that self-employed workers now have access to around 93 per cent of the contributory benefits that employees do, in value terms, while making much fewer contributions" (ESRI 2021, 31).
- Consequently, given the pressing demand for enhanced social insurance payments post-Covid-19 (for example, statutory sick pay as proposed by the Labour Party), we believe the Commission must examine pathways to equalising PRSI treatment of the self-employed and employees to ensure that each is contributing fairly.

[6] Options for raising tax revenue in Ireland (esri.ie)

- Our social protection system in general does a good job in terms of redistributing wealth and preventing many people from falling into consistent poverty. However, the system must be modernised and made fit for purpose for this century.
- Among the specific issues pertaining to the social welfare system that the Commission should prioritise for examination include an analysis of identified and hidden poverty traps; the overall adequacy of benefits and the need for a Minimum Essential Standard of Living (MESL); how family carers will be supported in future years; how we tackle the scourge of child poverty; the cost of disability; youth and long term unemployment; the provision of publicly-run employment services and the need to develop a new Short-Time Work Scheme (potentially based on the German Kurzarbeit model).
- These suggestions are not exhaustive, and we look forward to continuing to engage with the Commission on this element of your work

iii) *VAT*

- We note that Value Added Tax ('VAT'), in general a more regressive form of taxation, remains a key source of tax receipts and remains the second largest revenue stream for the Irish State.
- Given this, we are concerned by the findings of an ESRI (2020) analysis on "Effective Tax Rates in Ireland" which highlight that consumption taxes – indirect taxes like VAT and excise duties – are relatively high in Ireland compared to EU averages. Specifically, they are charged at an effective rate of 18.9% on sales, compared to an EU average of 16.8%.
- Additionally, we note that in 2021, VAT contributed €15,441 billion in tax receipts, amounting to over 20% of net exchequer tax receipts. We also note with concern that VAT's contribution to total tax receipts is projected to rise to 24% in 2022 (PBO 2021).
- We are therefore concerned at the growing reliance on regressive VAT receipts, given that people on low incomes pay a much higher percentage of their income in consumption taxes. Conversely, people on higher incomes pay proportionately less.
- Consequently, we believe that the forecasted rising share of VAT means that ordinary workers, pensioners and those unable to work due to unemployment, illness or disability will be forced to pay more of their income to purchase basic goods at a time when prices are expected to rise (due to Brexit, Covid-19, supply-side bottlenecks etc).

- We agree with the analysis of the 2018 OECD Economic Survey of Ireland (cited *in the DoF "Review of the 9% VAT Rate" 2018, 2-3)*[7] which notes that while reduced VAT rates on some household products may be an attempt to make VAT more progressive, lower rates for items such as purchases at restaurants, hotels and cinemas (i.e., discretionary categories of expenditure which comprise the majority of 9% rate sectors) likely work in the opposite direction."
- For example, we note a key finding of the Department of Finance "Review of the 9% VAT Rate" (2018, 30) which clearly states that "(t)he 9% VAT rate is regressive, meaning that better-off households benefit disproportionally more than worse-off households. This is because items of discretionary expenditure, such as meals in restaurants or stays in hotels, form a larger share of the budget of better-off households".
- We therefore believe the Commission should carefully explore progressive VAT reductions, particularly those which incentivise social and environmental objectives, while recommending the cessation of regressive reductions on discretionary goods for example.
- Governments have used expensive VAT reductions to support certain economic sectors (the cut to 9% of the VAT rate on the hospitality sector, for example, in 2011 and in 2020). Research has shown the 'deadweight' effect often associated with such interventions. In future and as a practice, the Commission should urge that any future changes proposed of this nature should be subject in advance to a full social, economic, labour and environmental analysis and should include conditionality to drive better outcomes through wealth transfers from the public purse to private business.

iv) Capital and Corporation Taxes:

- We note the ESRI's (2020, 9) analysis that since the mid -1990s, economic activities that bear a relatively higher tax level are consumption and labour while the taxes on capital have steadily fallen.
- We are concerned at the report's finding which indicates a "shift in Ireland's tax policy mix after the eruption of the Irish debt crisis in 2008", as it notes the relative tax total on consumption and labour increasing vis-a-vis the tax total levied on capital (ESRI 2020).

[7] Review-of-the-9-VAT-Rate.pdf (igees.gov.ie)

- We are also concerned at the said reports finding that taxes on corporate profits are particularly low here, with an effective rate of 7.7 per cent, compared to an EU average of 17.8 per cent.
- We note the report's conclusion (ESRI 2020, 17) that "effective tax rates on labour, capital and corporate income are lower compared to the EU average".
- It is clear from the report that taxes on capital are low partly due to the lower tax on company profits.
- We are also concerned that "the annual level of corporation tax receipts have increased by almost 70 per cent in the last five years" while the share attributable to the top-ten firms has also increased (i.e., higher concentration) over this period.
- Specifically, the top 10 largest firms account for just over half the revenue generated, while foreign-owned multinational firms paid 82% of all corporation tax receipts[8].
- The Labour Party has also noted the repeated warnings of IFAC with regards to this increasing reliance on "unsustainable" and "volatile" corporation tax receipts in recent years (e.g., IFAC, 2019[9]). This also points to a repeated failure to broaden the tax base and provide for a long-term sustainable strategy for fiscal stability as noted in the Central Bank Governors recent Pre-Budget Letter and IFAC's 2021 Fiscal Assessment.
- For these reasons, among others, the Labour Party called on the Minister for Finance to explicitly support Pillar Two of the OECD International Tax Proposals. We welcomed the Government's eventual commitment to this process and firmly believe it would bring stability and certainty to Ireland's corporate tax regime into the future, if followed through.
- Regarding immediate measures, we also believe the Commission must urgently examine the implementation of special windfall taxes on super-normal profits generated by multinationals during the pandemic as proposed by the IMF and others. We note a recent report has estimated that such a windfall tax could raise up to €4 billion for the Irish exchequer[10].

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[8] https://www.gov.ie/en/publication/1dc69-annual-taxation-report-august-2021/
[9] https://www.irishtimes.com/business/economy/up-to-6bn-of-corporate-tax-windfall-may-be-temporary-state-told-1.4097355
[10] Windfall tax on multinationals' 'excess profits' could net exchequer €4bn, report says (irishtimes.com)

- Looking forward, we are also cognisant of the fact that the rate of corporation taxation is not a silver bullet for Ireland's FDI offering, particularly given the State's long-standing strategic advantages as a location (i.e., highly educated, English-speaking country with access to EU markets and a good business culture and so on). In order to maintain quality foreign direct investment, we must invest in talent, quality and affordable housing and our infrastructure in a sustainable way.
- In this context, we strongly believe that the broader business tax *regime,* specifically the slew of ill-targeted tax-reliefs proffered to the Multinational Sector (such as the current refundable R&D tax credits and the Special Assignee Relief Programme (SARP) must be urgently re-evaluated and arguably discontinued.
- As the ESRI and Central Bank have noted, many of our existing tax breaks for businesses are poorly targeted and have not succeeded in achieving their stated policy aims. For example, the ESRI notes that there is little evidence to suggest that reduced rates of CGT are well targeted or assist investment in business start-ups, or that those who qualify for entrepreneur relief actually carry out activities associated with large spill-overs.
- They cited evidence from the UK which shows that few entrepreneurs who availed of a similar relief there in fact knew of its existence when starting their business, and even fewer reported it as having influenced the timing or nature of their disposal (HMRC, 2017).
- In short, it suggests that the relief is more likely to generate efforts to avoid tax on retirement than to achieve its intended purpose of spurring entrepreneurship or investment in enterprise. We can assume the same applies in this jurisdiction.
- The Labour Party believes a full review of CGT entrepreneur relief is necessary with a view towards its abolition, along with a review of all other CGT reliefs to examine how these may distort decision making, and lead to speculative hoarding and investment, as well as complex tax planning and avoidance schemes. Constant lobbying from vested interests to significantly reduce the CGT rate adds to policy uncertainty, must be resisted, and a long -term commitment to the current rate is necessary to address income and wealth inequality. Further, the Labour Party supports further increases in the rate to ensure capital is taxed at the same rate as income.

- However, we also believe there is space for a new, bespoke corporate taxation offering to support and incentivise our indigenous SME sector in line with revised national priorities which should focus on making our comparatively under-performing SME sector larger, more innovative and productive and more export-orientated. Such measures also have the potential to increase both SME profits and therefore State revenue via taxation.
- For instance, Labour has previously proposed a lower rate of corporation tax for companies that locate to disadvantaged regions of the country, while corporate income tax rates could for example be scaled according to taxable profits to reduce the payment on fledging SMEs, like the regime in the Netherlands.
- More generally, there is a strong case to be made too for a wholesale re-evaluation of the utility of current forms of State incentives, credits and tax breaks for the SME sector as we seek to scale-up our indigenous enterprises and equip them to meet the climate challenge.
- Additionally, within the category of "capital" taxes, we note the ICTU (2020, 33) report which highlights how "tax yield on stocks of capital – things like wealth, inheritance and property taxes – is low in the Republic of Ireland" when compared to the EU average (ESRI 2020) and peer Western EU countries. For example, the ICTU (2020, 33) report suggests the gap in such capital taxes is approximately €750 million over the whole population when compared to typical Western European norms.
- The Labour Party therefore strongly believe that given the already relatively high taxes on consumption and labour vis-a-vis the taxes levied on capital, increases in the latter category of taxation should be prioritised by the Commission. In the following section, we propose (note that this is not an exhaustive list) some additional tax raising measures that should be further considered by the Commission.

Some examples of additional revenue raising measures:

- According to recent research published by the Parliamentary Budgetary Office (PBO 2021)[11], the Local Property Tax ('LPT') has proven to be a reliable, relatively stable and sustainable source of revenue. LPT contributed €480 million to total tax receipts in 2020

[11] 2021-10-13 preliminary-pbo-review-of-budget-2022 en.pdf (oireachtas.ie)

and saw high rates of payment compliance despite the economic impact caused by the pandemic.

- Revenues raised from LPT may increase long-term as the housing stock in Ireland increases over time. It may also help to dampen house prices.
- The Labour Party has consistently supported the LPT. We welcome the recent re-evaluations, but we believe there is scope to go further.
- Specifically, we have called for a modest increase in the rate for homes over €1 million (to .3) and €1.75 million (to .4) respectively. We believe this should be further explored by the Commission.
- In addition, to ensure those "asset rich, cash poor" households are better insulated, we suggest the Commission considerer a reduction in the punitive level of interest payment on LPT deferrals, in line with the ECB interest rate.
- We welcome the study by the Commission of a Site Value Tax which should also consider how this would work alongside a zoned land tax, and taxes on vacant housing, and derelict sites, commercial rates, and windfall taxes on speculative hoarding of development land, and how these may all be integrated under one system to aid compliance and collection. The design of a proposed SVT should also carefully consider how it would transition from the successful LPT, and whether a base rate of tax would apply to all land in the State. The importance of these taxes for funding local government must be central to any proposed changes.
- The Commission must address the need for increased taxes on speculative activity, and the role of institutional investors in driving up house prices and rents in Ireland. The taxation of REITS and other investment vehicles must be increased alongside an overall analysis of the interplay between stamp duties, taxes on profits and capital taxes in driving this activity.
- An increase in stamp duty on the purchase of property over a certain value as proposed by the Tax Strategy Group (2021)[12] should be strongly considered, both as a growth-friendly revenue raising measure and to help to dampen house prices. For instance, reductions in the cut-off rates, applying a higher rate on the full value of a property (once exceeding a certain limit) and additional surcharges on non-

[12] gov.ie - Budget 2022 Tax Strategy Group papers (www.gov.ie)

residential/commercial transactions and on the bulk-buying of all residential property by commercial interests (so-called cuckoo funds and so on) should all be urgently considered by the Commission.

- Similarly, the Commission should strongly consider increases to stamp duty on the acquisition of shares and the introduction and/or increasing of levies on a series of economic sectors, particularly those services which are inelastic by nature and have contributed to rising costs for consumers.
- For example, the Commission should consider extending and expanding the existing bank levy, while actively exploring the introduction of additional levies for other exceptionally profitable sectors such as energy, rental, construction, digital sectors etc., tied to specific policy objectives and outcomes
- Additionally, the Labour Party believes that targeted taxes on wealth must be recommended by the Commission. This will be crucial to ensure that we can renew the social contract and repair our society and economy when the pandemic passes and to enable us to make the necessary investments to deliver the kinds of public services the citizens of a rich, progressive Republic should be entitled to expect.
- We note and support the prior work of NERI and TASC in examining the option for the implementation of a wealth tax in Ireland (McDonnell 2013)[13].
- We also note the IMF, ESRI and others calls for a temporary or “once-off” tax on wealth, particularly in the context of Covid-19, an event which has served to further compound and exacerbate pre-existing inequalities in Ireland. For instance, applying a tax at the rate of 1 per cent applied to wealth in excess of €1 million for a single adult (double that for a couple) without exemptions could raise €248 million from 26,000 (1.5 per cent of households), yet the Department of Finance has repeatedly refused to cost or collect adequate data that would inform the development of such an initiative.
- Additionally, as noted by the IMF (2021), a temporary surcharge on additional capital taxes could also be considered.
- Moreover, the Commission should strongly consider reforms to inheritance taxes (e.g., Capital Acquisition Tax) in the interests of both equity and raising additional revenue for the exchequer to fund public services.

[13] tasc_neri_wealth_tax_tom_mcdonnell.pdf

- As the ESRI (2021) has highlighted, there is significant scope to raise taxes on transfers of wealth, with less than half of deaths leading to an inheritance subject to CAT. Specifically, their analysis shows that only a small number of individuals are receiving large bequests or gifts, with the average payee receiving almost €600,000 of inheritance or gifts from their parents (or children) over their lifetime.
- In this context, increasing the headline rate of CAT and reductions in band thresholds for CAT categories, and other reliefs should actively be considered by the Commission.

Tax Expenditures:

- We note expert academic evidence which suggests that for every €5 collected in taxation and social insurance, the state currently decides not to collect an additional €1 which is forgone through the provision of various tax breaks and reliefs[14]
- We are concerned that according to available data stemming from the most recent comprehensive tax expenditure data published by the Revenue Commissioner in 2016, the revenue forgone from tax reliefs is estimated at €32 billion[15].
- We are concerned that while improvements in the publication of tax expenditure details have improved since the previous Tax Commission report in 2009, such reliefs are still not subjected to annual assessment as part of the budgetary process.
- We also note recent independent research from the ESRI (2021, 29) which has identified "some of the larger reliefs that have a more questionable underlying economic rationale or are poorly targeted at achieving their stated aims".
- We note the recommendations on Tax Expenditures from the 2009 Commission on Taxation Report (Part 8), specifically their finding that "in general, direct Exchequer expenditure should be used instead of tax expenditures".
- We also note the Commission's finding that "to the extent that the beneficiaries of tax expenditures are those with higher incomes or substantial capital, this results in a transfer of financial resources to these beneficiaries by the rest of the taxpaying community, including those on low income".

[14] Reform of 'discretionary' tax expenditures could soften financial costs of COVID, Oireachtas committee hears (ucd.ie)
[15] Delivering Fair Taxation in Budget 2022 - Tax Expenditures | Social Justice Ireland

- Moreover, the policy of tax subsidisation of investment, which is supposed to assist in incentivising economic activity, is arguably anti-competitive. They are anti-competitive because, for example, they give subsidies in tax breaks to some property-based investments but not to competing developments. In addition, one major un-intended consequence of these schemes has been the phenomenon of aggressive tax planning.
- In short, tax expenditures are likely to be regressive in nature, and are moreover often difficult to justify. The Labour Party believes a full review of tax expenditures is required, and rigorous annual reporting of future tax reliefs is needed.
- Specifically, every existing tax expenditure (except personal tax credits and such) should now be subject to a major review by this Commission, with consideration given to the termination of most current tax expenditures because of a) their distorting impact on the market and b) on social and economic equity and (c) the question of value for money.
- In addition, we believe few future tax expenditures should be introduced without a) a prior cost/ benefit analysis which is fully costed and published in advance demonstrating substantial benefits and b) with a sunset clause of a maximum of five years.
- However, the Labour Party does specifically support the reintroduction of tax relief for trade union subscriptions (as applied until 2011), justified on progressive public policy and on equity grounds. Importantly, the OECD (2019, 128[16]) cites how "(s)everal countries use fiscal incentives to promote trade union membership", most notably the Nordic countries of Norway, Sweden and Finland.

Environmental Taxes and Subsidies:

- We note that more than €125 million has been spent to date on "carbon credits" due to the failure to meet Ireland's 2020 emissions targets. While the failure to meet our renewable targets within the framework of the Directive could potentially cost in the order of €110m[17].

[16] Negotiating Our Way Up : Collective Bargaining in a Changing World of Work | OECD iLibrary (oecd-ilibrary.org)
[17] Renewable Energy Generation – Tuesday, 15 Sep 2020 – Parliamentary Questions (33rd Dáil) – Houses of the Oireachtas

- We note that these EU fines may significantly increase due to the failure to reach stated 2030 targets, while the significant economic and social cost of environmental inaction (e.g., congestion, air pollution, flooding, loss of biodiversity) is well evidenced.
- We are concerned at CSO (2021[18]) figures which estimate total fossil fuel subsidies amounted to €2.4 billion in 2019. Specifically, direct fossil fuel subsidies accounted for 11% of total fossil fuel subsidies in 2019 while indirect subsidies arising from revenue foregone due to tax abatements accounted for 89%.
- We note that Ireland has the second highest level of fossil-fuel subsidies among OECD countries and that removing these subsidies would be a progressive measure (i.e., small impacts on average household disposable income, with higher-income households more affected than lower-income households), with the exception of means-tested allowances for electricity, gas and fuel (De Bruin et al. 2019; ESRI 2021).
- We also note that meeting Ireland's obligations on climate will necessitate "a mass transfer from the consumption of mineral oils to the consumption of electricity over the course of the next decade" (TSG 2019, 20).[19]
- Accordingly, this will have "long term implications for the Exchequer as it currently receives some €2.5 billion in annual excise revenues from the taxation of fossil fuels (mineral oil tax, carbon tax), with significant further VAT revenues from fossil fuels". Moreover, an additional €2 billion is received "from the taxation of motor vehicles powered by fossil fuels (VRT, motor tax)". Hence, Ireland's existing revenue base will be "seriously eroded over the course of the next decade and it is incumbent on the State to seek to address this deficit to ensure fiscal sustainability and funding of essential infrastructures".
- Herein, we are deeply concerned that despite the commitment within the Programme for Government (PfG) to "utilise taxation measures, as well as expenditure measures, to close the deficit and fund public services, if required", the Government has stated that it "will focus any tax rises on those taxes that tax behaviours with negative externalities, such as carbon tax…and plastics".

[18] Environmental Economy - CSO - Central Statistics Office
[19] c447474fea5e422080a6384b7a84fbed.pdf (assets.gov.ie)

- The Labour Party believes such behavioural taxes, often regressive in nature, should not be regarded as a long-term revenue stream, but instead intended to reduce or eliminate negative environmental behaviours while also acting as source of ringfenced funding for climate action (e.g., retrofitting; just transition).
- However, we note the TSG (2019, 20) that the "loss of Exchequer revenues from fossil fuel consumption will require consideration of a number of options to raise replacement revenues". At present it is in our interests to encourage the development as quickly as possible of renewable energy sources however as these permanently replace the revenue stream from fossil fuels, the Commission should examine the potential for a licensing levy or royalty/stamp duty regime applying to the benefits that accrue to the owners of these systems that exploit our natural resources (wind, hydro, tides and solar).
- We therefore strongly encourage the Commission to explore such revenue raising measures in addition to providing a pathway for the immediate reduction and subsequent elimination of fossil fuel subsidies. The Labour Party has also previously called for the introduction of a levy on landfill waste, and previous Tax Strategy Group papers have highlighted a number of potential environmental taxes that should be considered by the Commission.

Taxation Rules, Regulations and Norms:

i) EU Fiscal Rules

- The Labour Party welcomed the recent decision to suspend the fiscal rules of the EU "the Stability and Growth Pact" (SGP) (also called the Fiscal Rule) in order to respond to the Covid-19 pandemic. We note the rules are now being reviewed. The Commission must urge the Irish Government to take a progressive, Keynesian view in the debate because the new rules will inform our future budgets and dictate the extent to which Ireland will be enabled to invest in climate action measures, housing and other critical infrastructure. In short, we believe the return of the SGP in full or even partially, will increase poverty, inequality, damage the environment by slowing climate repair and reduce economic growth and development for decades.

ii) Tax Evasion, Avoidance and the Role of Advisory Firms

- Tax evasion is the non or under-payment of taxation. It is illegal. We note that the scale of tax evasion and tax avoidance in Ireland and in the European Union is immense (Sweeney 2015). For instance, it has been estimated to be t almost 20 percent of EU GDP at one point (Renooy and Williams 2014, 43). In short, if substantially curbed, both could fund greatly improved public services (or reduce personal taxation).For example, the success of Revenue Audits of Schedule D taxpayers (self-employed) demonstrates that these should be much more comprehensive. There should also be more revenue audits of the corporate sector and more *random* Audits by the Revenue Commissioner.
- While taxation is a national competence, borders do not matter for multinational companies nor their tax advisers (which are MNCs themselves). We therefore believe the European Commission should be urged by the Irish government to set up a new European body, similar to the "Eurotax" body proposed by Sweeney (2015, 26)[20], to coordinate anti-evasion and anti-avoidance at European level.
- Additionally, considering significant international tax evasion scandals, we note there is increasing international disquiet at the dominant and influential roles of "the Big Four" accounting firms in facilitating tax avoidance and in influencing government taxation and other policy, with subsequent calls to break up the dominance of KPMG, PWC, EY and Deloitte[21].
- We also note "the Big Four" facilitating tax avoidance (albeit lawfully) and we further note their role in auditing and certifying the accounts of the banks and speculators before the 2008 financial crash.
- We therefore believe there is a need for transparent steps to be taken to separate responsibility for functions in these organisations such as auditing, taxation and consulting to avoid conflicts of interest in respect of work for the State and its agencies.

iii) *Budgetary Process*

[20] Mise en page 1 (etui.org)
[21] Accountants: Government to break up dominance of Big Four firms - BBC News

- The annual Tax Strategy Group papers should be published earlier in the annual Budgetary process, preferably at the beginning of the summer. We do however appreciate that recent delays have been influenced by the pressures of the pandemic. We would also welcome a more robust costing system to ensure proposals put forward by Opposition parties are more accurately modelled and costed. The current process has become overly reliant on the Revenue Ready Reckoner.

The Future of our Island:

- While not included in the terms of reference for the Commission, a comparative analysis of the different tax regimes in operation in the two jurisdictions on our island, and proposals for closer alignment would be welcome as part of the Shared Island initiative and would inform debate on any future proposals for a united Ireland
- In addition, and as the debate on the possibility of united Ireland gathers pace, it would be worthwhile if the Commission would consider in broad and general terms the potential tax, welfare and public spending challenges and implications for the island of Ireland in this regard.