Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Balance of taxation – Options Snapshot

CONFIDENTAL AND NOT FOR WIDER CIRCULATION For discussion	
Subject	**Balance of taxation – Options Snapshot**
Author	Commission on Taxation and Welfare Secretariat
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1. Introduction

The purpose of this short discussion paper and accompanying presentation is to set out a brief summary of the various revenue raising options that have been referenced by the Commission and the Secretariat in its work to date along with some associated potential expenditure measures that may form part of the Commission's recommendations as they are considered further and finalised over the coming months.

As part of its TOR the Commission has been asked to specifically consider *"options for reform on the balance between the taxation of earned income, consumption, and wealth".* Therefore the various options have been categorised under each of those headings to facilitate a discussion by members, gauge existing consensus and consider next steps in relation to the options in the context of achieving an optimal balance of taxation and our agreed net revenue raising mandate. While revisiting some of the previous discussions it was also clear that some additional expenditures have emerged as areas of focus and where they are potentially material these have also been included.

It is important to note that these lists are not exhaustive and the Secretariat has simply attempted to collate the various options that have been called out for consideration by the Commission through its work to date. None of the options presented have been agreed by the Commission and the presentation, or indeed exclusion of options, from these lists has no bearing on future decisions to be taken by the Commission in due course.

This summary is intended to act as a staging post to facilitate a high level discussion on direction of travel and items of consensus from our work to date.

2. Balance of taxation - recap

As discussed at meeting 8, the terms of reference specifically ask the Commission to consider "*options for reform on the balance between the taxation of **earned income, consumption,** and **wealth***". The Secretariat has interpreted these terms as meaning the following:

- **Taxes on earned income**: This relates to all taxes and levies, such as income tax, USC, PRSI and corporation tax, on labour (both employed and self-employed) and business trading income.
- **Taxes on consumption**: This covers taxes on spending such as VAT and excises including carbon tax and vehicle registration tax (VRT).
- **Taxes on wealth**: This covers taxes on income derived from ownership of a capital asset (for example shares, property, deposit accounts, etc.), together with taxes on the gains from

disposal of assets, or taxes on the acquisition, holding or occupation of such assets. For example, this includes income tax, DIRT, USC, PRSI and corporation tax on investment, savings and passive income,[1] as well as capital taxes such as stamp duty, Capital Acquisitions Tax, Capital Gains Tax and Local Property Tax.

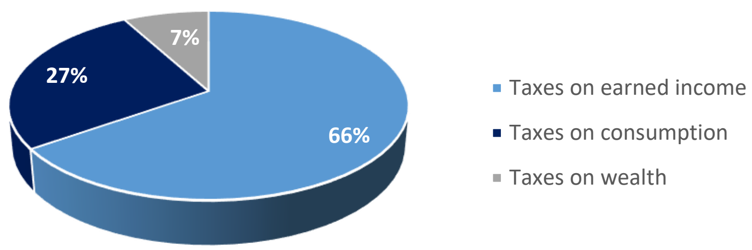
Using the above categorisation (as far as available data allows), the total receipts from 2020 show a strong reliance on public funding from taxes on earned income (66% of total receipts), followed by taxes on consumption (27%) and lastly taxes on wealth (7%).

Due to limits in the way data is collected, it is not possible to separately present the corporation tax receipts from trading income, passive income and chargeable gains. Revenue has stated[2] that as certain reliefs can be offset against profits taxable at the higher rate before off-setting them against income taxable at the 12.5% rate, the bulk of corporation tax paid was attributed to trading income in all years. Data is also not available on the breakdown of income tax, USC and PRSI receipts from self-employed income compared with investment/non-trading income.

Figure 1 Breakdown of tax receipts 2020 (€) – Total €68 billion

Taxes on earned income	€m	Taxes on consumption	€m	Taxes on wealth	€m
Income Tax* *PAYE 15,576* *Self-assessed 1,828*	17,404	VAT	12,474	Stamp Duty *Other*** 1,006* *Shares 569* *Property 519*	2,094
Corporation Tax**	11,833	Excise	5,427	Capital Gains Tax	950
Employer PRSI	7,929	Customs	273	Capital Acquisitions Tax	505
USC* *PAYE 3,260* *Self-assessed 572*	3,832	Plastic Bag Levy	4	Dividend Withholding Tax	487
Employee PRSI	2,773			Local Property Tax	480
Professional Services Withholding Tax	759			Life Assurance Exit Tax	124
Self-Employed PRSI*	647			Deposit Interest Retention Tax	37
				Other Income Taxes	4
Total	**45,177**		**18,178**		**4,681**

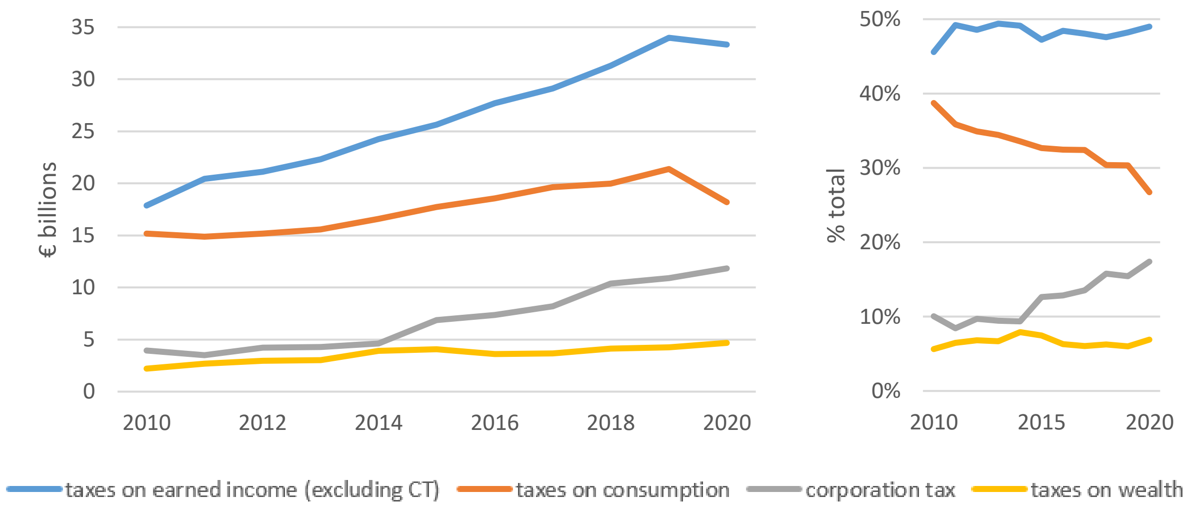
[1] Passive income is income that is earned without much active involvement e.g. from dividends, royalties, etc.
[2] Revenue, Corporation Tax – 2020 Payments and 2019 Returns



Source: Revenue, the Department of Finance and Department of Social Protection
Notes: For ease of discussion PRSI is referred to as a tax.
** Data is not separately available for income tax, USC and PRSI on trading/self-employed income and non-trading/investment income.*
*** Data is not available for tax collected under each of the 12.5% (trading income), 25% (passive income) and 33% (capital gains) rates of corporation tax, however Revenue have stated the bulk of corporation tax paid is attributed to trading income in all years. Therefore, corporation tax receipts from 2020 have been included in the taxes on earned income category above.*
**** Other stamp duty includes the non-life levy and life assurance levy, levy on certain financial institutions and duties from insurance policies, cheques, credit cards, etc.*

Figure 2 below demonstrates the trend of Irish tax receipts over the last decade, with a notable increase and reliance on taxes collected from earned income (income tax from employments and corporation tax from multinationals in particular). Corporation tax receipts are shown separately for context given the scale of increase shown. Consumption taxes as a percentage of total taxes have also fallen considerably over the same period.

Figure 2 ***Irish tax receipts from earned income, consumption and wealth 2010 to 2020***



Source: Secretariat calculations based on data from Revenue, the Department of Finance and CSO

See additional information presented in related paper from [meeting 8]

Legend - Estimated revenue Impact. Indicitive only, highly dependent on final design and other interdependencies	Cost -			Revenue +	
	High	Modest	Neutral	Modest	High

3. Taxed on Earned Income – options summary

This section sets out the range of options raised in Commission papers and discussion to date related to taxes on earned income. The options have been grouped by Commission work stream where possible. As outlined above this includes all taxes and levies, such as income tax, USC, PRSI and corporation tax, on labour (both employed and self-employed) and business trading income.

Tax Head	#	Action	Summary / Rationale	Revenue Impact					Workstream
Income Tax	1	Lower income tax entry threshold through reduction in existing credits	Base broadening, increases reciprocity. Note potential impact on lower income deciles, in-work SW benefits and employment disincentives					✓	Fiscal Sustainability
Income Tax	2	Curtail old age exemption limit	Base broadening, sustainable revenue source directly linked to increased dependency ratio. Improves intergenerational equity				✓		Fiscal Sustainability
Income Tax	3	Phase out tax relief for private health insurance	Significant tax expenditure which may no longer be appropriate in the context of the implementation of Sláintecare				✓		Fiscal Sustainability
PRSI	4	Lower entry threshold for making PRSI employee contributions	Base broadening, increases reciprocity. Any changes must address progressivity and reduce cliff edge effects					✓	Fiscal Sustainability / Social Insurance Reform
USC	5	Lower entry threshold	Base broadening					✓	Fiscal Sustainability
Income Tax	6	Reduce or modify supplementary pension tax free lump sum exemption	High cost tax expenditure, addresses concerns around implementation of EET system. Low impact on pension adequacy.					✓	Pensions
Income Tax	7	Introduce indexation for pension contribution earnings limits and Standard Fund Threshold (SFT)	Improves adequacy of supplemental pension coverage due to market conditions. Note - potential crossover to indexation for state pension payments		✓				Pensions
Income Tax	8	Reduce SFT threshold to amount linked to specific multiple of average income	Link SFT to specified level of income derived from market pension annuity rates. +/- impact dependant on level agreed			✓			Pensions
Income Tax	9	Remove pension contribution age related restrictions	Recognises intergenerational equity and changing work patterns while equity is addressed through SFT and earning limits.		✓				Pensions

Document Reference: Balance of taxation – options snapshot

Tax Head	#	Action	Summary / Rationale	Revenue Impact					Workstream
Income Tax	10	Strengthen EET pension tax system	Ensure no leakage at drawdown stage, leading to an EEE system.				✓		Pensions
PRSI	11	Address step effects	Address disincentive effects of existing system along with potential improvements in equity			✓			Social Insurance Reform
PRSI	12	Curtail old age exemption limit	Base broadening, sustainable revenue source directly linked to increased dependency ratio. Improves intergenerational equity				✓		Social Insurance Reform
PRSI	13	Employer - Remove or curtail exemptions for share based remuneration	Base broadening, addresses equity concerns and reflects changing remuneration trends. Targeted reliefs may be more appropriate					✓	Social Insurance Reform
PRSI	14	Self-Employed - align PRSI paid in respect of activity carried out under Class A and Class S	Base broadening, addresses equity concerns. Note remaining differences in benefit coverage should be eliminated in tandem					✓	Social Insurance Reform
PRSI	15	Increase employee Class A PRSI in line with recommendations from the Pensions Commission	Base broadening, addresses sustainability challenges					✓	Social Insurance Reform
PRSI	16	Increase employers PRSI in line with recommendations from the Pensions Commission	Base broadening, addresses sustainability challenges					✓	Social Insurance Reform
PRSI	17	Increase rate applicable to unearned income in line with changes to employee PRSI	Base broadening, addresses sustainability challenges					✓	Social Insurance Reform
Income Tax	18	Introduce taxation at source for existing taxable social welfare payments	Equal treatment of income sources, addresses structural issues.			✓			Administrative Reform
Income Tax	19	Phase in full individualisation	Equality for different family circumstances and incentivising workforce participation by second earners. Actual cost dependent on approach	✓					Structural Reform
USC	20	Remove USC surcharge on non-employment income	Addresses inequality of treatment when taken together with PRSI changes	✓					Structural Reform
Income Tax	21	Support principle based approach to reliefs targeted at entrepreneurs and small businesses	Enhanced supports to be introduced in tandem with changes to more poorly targeted capital tax reliefs (see Wealth)		✓				Supporting economic activity
Corporation Tax	22	Introduce one rate of corporation tax for trading and passive income	Promotion of horizontal equity and neutrality of investment decisions. Note likely significant Exchequer cost.	✓					Structural Reform
Corporation Tax	23	Retain lower 12.5% rate for smaller businesses where possible within new framework	Endorse retention of lower corporation tax rate for SMEs in line with TOR			✓			Supporting economic activity

Tax Head	#	Action	Summary / Rationale	Revenue Impact	Workstream
Related Expenditure Items					
Social Protection	24	Pay Related Benefits	Smooth transitions between employment and unemployment, reciprocity – subject to potential transfer to higher income deciles. Actual costs dependent on approach adopted	✓	Social Insurance Reform
Social Protection	25	Support enhanced activation reforms	Enhancing engagement and activation across the system	✓	Encouraging employment

Legend - Estimated revenue Impact. Indicitive only, highly dependent on final design and other interdependencies	Cost –			Revenue +	
	High	Modest	Neutral	Modest	High

4. Taxes on Consumption – options summary

This section sets out the range of options raised in Commission papers and discussion to date related to Consumption taxes. These options have also been grouped by Commission work stream where possible. As outlined above these include taxes on spending such as VAT and excises including carbon tax and vehicle registration tax (VRT).

Tax Head	#	Action	Summary / Rationale	Revenue Impact					Workstream
Excise Duty	1	Phasing out of harmful tax expenditures and fossil fuel subsidies over time (in line with changes in technology and international commitments)	Supporting climate transition and addressing sustainability challenges				✓		Environment
Excise Duty	2	Equalise excise on auto diesel and petrol	Remove behavioural incentives for use and ownership of diesel cars.				✓		Environment
Excise Duty	3	Acceleration of Carbon Tax increases	Potentially accelerate pathway to climate targets. Note concerns raised by Commission members around equity and inelasticity of demand for energy and transport				✓		Environment
Excise Duty	4	Introduce road usage and/or congestion charges	Base broadening. Replaces charges linked to fuel excise in an environmentally positive manner to provide sustainable revenue					✓	Environment / Fiscal Sustainability
VRT	5	Long term reform VRT to maintain revenue stream	Further reform of emissions focused VRT regime and adapting to a more sustainable system over the longer term			✓			Environment / Fiscal Sustainability
Excise Duty	6	Increase tax yield from electricity supply over extended timeframe	Increase yield from electricity supply as share of renewable sources increase and excise related revenues fall. Note potential impact on low income households and forecast inflationary pressures				✓		Environment / Fiscal Sustainability
Excise Duty	7	Introduce an environmental focused city / tourist tax	Common revenue stream in other jurisdictions. Addresses environmental costs associated with high levels of tourism				✓		Environment / Fiscal Sustainability
VAT	8	Reduce number of zero rated goods and services	Base broadening. Note treatment of food and potential impact on lower income deciles					✓	Fiscal Sustainability
Excise Duty	9	Introduce additional or increased sin taxes on unhealthy foods	Base broadening. Note design and administration difficulties and regressive nature of sin taxes			✓			Public Health

Document Reference: Balance of taxation – options snapshot

Tax Head	#	Action	Summary / Rationale	Revenue Impact	Workstream
Excise Duty	10	Better alignment of excise rates on alcohol	Increase yield from alcohol excise. Note existing high excise rates, EU directives and recent Govt interventions in area.	✓	Public Health
Related Expenditure Items					
Social Protection	11	Additional funding to support just transition (via direct expenditure and activation reform)	Directly address regressive nature of environmental taxes challenges facing behaviour changes.	✓	Environment

Legend - Estimated revenue Impact. Indicitive only, highly dependent on final design and other interdependencies	Cost -			Revenue +	
	High	Modest	Neutral	Modest	High

5. Taxes on Wealth – options summary

This section sets out the range of options raised in Commission papers and discussion to date related to taxes on wealth. These options have also been grouped by Commission work stream where possible. As outlined above this categorisation covers taxes on income derived from ownership of a capital asset (e.g. shares, property, deposit accounts, etc.), together with taxes on the gains from disposal of assets, or taxes on the acquisition, holding or occupation of such assets. For example, this includes income tax, DIRT, USC, PRSI and corporation tax on investment, savings and passive income, as well as capital taxes such as stamp duty, CAT, CGT and LPT.

Tax Head	#	Action	Summary / Rationale	Revenue Impact					Workstream
CGT	1	Align CGT with Income Tax rate	Promotion of horizontal equity and neutrality of investment decisions. Note – any decision would also require consideration of alignment on corporate side					✓	Capital Taxes
CGT	2	Introduce CGT charge on transfers at death (e.g. by acquiring asset base cost from the deceased, or a charge on the estate)	Base broadening and promotion of neutrality between lifetime transfer of assets and via an inheritance. Note interaction with CAT and administrative challenges.				✓		Capital Taxes
DIRT	3	Align DIRT with Income Tax rate, introduce USC charge	Promotion of horizontal equity and neutrality of investment decisions.				✓		Capital Taxes
Investment Income	4	Align LAET and exit tax on funds with income tax rate, introduce USC charge	Promotion of horizontal equity and neutrality of investment decisions.					✓	Capital Taxes
Wealth Tax	5	Introduce a one off or recurring new wealth tax	Base broadening, intergenerational equity. Note administrative challenges and existing capital taxes					✓	Capital Taxes
Commercial Rates	6	Transition Commercial Rates over time to new centrally administered Site Value Tax	Equity, base broadening, encourage productive use of land. Increased certainty and transparency for land and business owners			✓			Housing
LPT	7	Increase general LPT yield over time	Base broadening, fair and equitable to increase yield from LPT over time					✓	Housing
LPT	8	Introduce an LPT vacant property surcharge	Base broadening, limit exemptions. Designed to encourage productive use of housing stock rather than sustainable source of income				✓		Housing
LPT	9	Limit LPT habitable exemptions	Base broadening, limit exemptions. Designed to encourage productive use of housing stock rather than sustainable source of income				✓		Housing

Document Reference: Balance of taxation – options snapshot

Tax Head	#	Action	Summary / Rationale	Revenue Impact	Workstream
LPT	10	Increase rate for second properties	Base broadening. Designed to encourage productive use of housing stock rather than sustainable source of income	✓	Housing
SVT	11	Introduce SVT to cover all non-residential land	Equity, base broadening, encourage productive use of land	✓	Housing
CGT	12	Limit PPR exemptions to amount reinvested in another PPR or to a set value limit	Base broadening, intergenerational equity	✓	Housing
CAT	13	Reduce the rate of Business and Agriculture relief	Base broadening, increase equity. Note policy intention to promote intergenerational transfers of business and productivity challenges	✓	Supporting economic activity
CGT	14	Reform approach to Retirement & Entrepreneur relief	Base broadening, increase equity. Consider integration of reliefs and better targeting towards smaller and more innovative businesses. Note – Some members also raised alternative views to extend such reliefs further	✓	Supporting economic activity

6. Conclusion

The purpose of today's discussion is to recap on this direction of travel and consider the impact of these options in the context of the horizontal principals previously discussed by the Commission and the overall impact a package of these options may have on the overall balance of taxation as set out in our terms of reference, namely earned income, consumption and wealth.

As indicated at the outset, the shortlisting of options, reforms and proposals set out in this document are intended to serve as brief reminder of the range of options that have been referenced by the Commission and the Secretariat in its work to date. It cannot be stressed enough that this listing is not exhaustive and will be further discussed and refined as the Commission's recommendations are finalised over the coming months. None of the options presented have been agreed by the Commission and the presentation, or indeed exclusion of options, from these lists has no bearing on future decisions to be taken by the Commission in due course.

Should Members wish to provide specific feedback on the options listed or make suggestions around additional material that should be included in future iterations please get in touch with the team directly at secretariat@cotw.gov.ie.