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Chapter 1 - General Questions

1 What elements of the taxation and welfare systems do you feel are working well?

Please elaborate below::

TAXATION SYSTEM:

The taxation and the welfare systems do contribute to reducing market income inequality and poverty in Ireland (OECD (2020), OECD Economic Surveys: Ireland 2020; European Commission (5 February 2020), Staff Working Document Review of the suitability of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, SWD(2020) 211 final).

The point should be made however that in view of the particularly high cost of tax expenditures in Ireland, it is the welfare system rather than the taxation system that is primarily effective in this regard (Collins, M. (24 June 2021), Remarks to the Oireachtas Select Committee on Budgetary Oversight on the topic of Tax Expenditures).

WELFARE SYSTEM:

The Department of Social Protection is the biggest spending government department. In 2019 (pre-pandemic), total social welfare expenditure was €20.9 billion, equivalent to €1 out of every €4 of current government expenditure and 6% of GDP. 1.35 million people received a weekly welfare payment, which supported over 2 million beneficiaries (i.e. 40% of the population). The seasonally adjusted unemployment rate at the time was 4.8%.

Annual social welfare expenditure increased by more than 400% in the twenty years preceding the pandemic. While this is partly accounted for by extraordinary population growth (32%), over this period there has been a marked improvement in the range of income supports available, widening eligibility and the value of payments. The payment rates of the contributory Jobseeker's Benefit and State Pension for unemployed and retired workers have increased by over 10% in nominal terms since 2011 despite the financial crisis. However, when adjusted for inflation, the real increase is substantially less – only 2.3% and 1.7% respectively.

As mentioned above, the Irish welfare system performs well in reducing people's risk of poverty. In 2019, income supports (i.e. excluding pensions) reduced the at-risk-of-poverty rate from 30.6% to 12.8%, an absolute reduction of 17.8 percentage points. In relative terms, this represents a poverty reduction effect of 58.2%. Ireland remains one of the best performing EU member states in reducing poverty through social transfers.

The scale and the speed of the welfare system response to the economic downturn caused by the coronavirus pandemic was unparalleled in the history of Irish social policy. The emergency income supports proved very effective in cushioning workers from the sudden loss of employment. The at-risk-of-poverty rate of 13.2% in 2020 would have been more than seven percentage points higher at almost 21% without the Pandemic Unemployment Payment and Wage Subsidy Scheme.

While the response was quick and generous, the schemes that had to hastily introduced in March 2020 have been a permanent feature of welfare systems in other high-income EU peer countries for decades. Having to introduce entirely new income supports quickly has resulted in costly policy design flaws, such as not prohibiting companies that have their wage bill subsidised by the state paying dividends to shareholders for a fix period (as in Germany); an inability to target subsidies to specific sectors (i.e. to businesses more severely affected by public health restrictions) rather than a blanket fall in turnover (as in France); an inability to confirm self-employed claimants ongoing eligibility to the PUP, and replacement rates above 100% for part-time workers.

2 What elements of the taxation and welfare systems do you feel are not working well?

Please elaborate below::

TAXATION SYSTEM:

Ireland's taxation system does not raise sufficient revenue. Revenue from taxes and social contributions is lower than the EU27 average as a proportion of output, on a GNI* basis (McDonnell, T (2021) How heavy is the weight of tax in the Republic of Ireland – Some high-level facts).

This fact is implicitly acknowledged in the terms of reference for the Commission, which ask it to review how the taxation system can ensure 'there are sufficient resources available to meet the costs of public services and supports in the medium and longer term' and to take account of the 'long term strategic commitments of Government regarding health, housing, and climate'.

With regard to the requirement in the terms of reference for the Commission to have regard to 'the Government's commitment to a pro-enterprise policy framework', we would point that the 10 of 14 European countries where government revenue as a share of economic activity is estimated by Kaloulidou and Roantree to be higher than Ireland's are also ranked higher than Ireland in the (business-led) World Economic Forum's Global Competitiveness Report 2019 (Kaloulidou and Roantree (2021) Options for raising tax revenue in Ireland, Budget Perspectives). In fact, countries that traditionally would be classed as 'high-tax and high-spend', such as Sweden, Denmark, Finland and Norway, were ranked 8th, 10th, 11th and 17th respectively.

Furthermore, nine of those 14 countries that raise more revenue than Ireland also had higher employment rates than Ireland in 2019 (pre-pandemic) according to OECD data. Again, it was the countries that where government revenue as a share of economic activity was at the upper end were also among those with the highest employment rates.

This is not to suggest that no other factors affect competitiveness and employment but it does make clear that there is no inherent tension between raising more revenue from taxation, a pro-enterprise policy and higher employment rates than Ireland had pre-pandemic. As the Nevin Economic Research Institute (NERI) state, 'if similarly developed states can meet social and economic goals through tax and spend policy in a manner that doesn't imperil economic performance, there exists a prima facie case that similar levels of public spending and revenue raising are possible in Ireland and the UK' (Goldrick-Kelly, et al (2020) Reforming Tax and Spend in the United Kingdom and in the Republic of Ireland, NERI Working Paper No 67).

This and previous NERI research have demonstrated that the yield from Ireland's taxation system, as a proportion of GNI*, is relatively low compared to the EU27 average and particularly low compared to the average of comparable high-income EU member states i.e. Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Sweden, and the UK (a member state when the research was carried out); that the major short-fall is in the area of social insurance contributions from employers and that social insurance contributions from the self-employed and revenue from capital stocks are also low compared to the EU27 average and particularly low compared to other high-income EU member states (Goldrick-Kelly, P. and T. McDonnell (2017) Taxation and Revenue Sufficiency in the Republic of Ireland, NERI Working Paper No 48).

Ireland's taxation system also does not require adequate conditionality for businesses that benefit from tax expenditures, including the substantial supports made available in response to the pandemic. The IMF for example estimates that tax cuts and business supports amounting to more than €2.2 billion were provided in 2020, with tax deferrals and lending and guarantees amounting to a further €7 billion (IMF (2021), Ireland 2021 Article IV Consultation, IMF Country Report No. 21/123).

In July 2020, the European Commission issued an (advisory) Recommendation that urged member states to ensure that state support (including tax expenditures) to firms is conditional on the absence of any links, up to the firm's beneficial owners, with jurisdictions on the EU black-list of non-cooperative tax jurisdictions. It is not clear what action, if any, Ireland has taken in response. The Minister for Finance has stated that he is 'not aware whether any companies receiving public supports in Ireland are registered in jurisdictions that are included on the EU list of non-cooperative tax jurisdictions (Reply to written parliamentary question no.27489.21, 25 May 2021).

Congress proposed that tax expenditures for business should be conditional on respect of Ireland's commitments concerning collective bargaining and the decent work (e.g. under the UN SDGs and the European Pillar of Social Rights).

WELFARE SYSTEM:

Income protection for workers is exceptional weak by EU standards.

An unusual feature of Ireland's (and other English-speaking nations') social welfare system is that our short-term income supports are flat-rated and set below the poverty line, designed to offer workers no more than minimal financial support during periods of unemployment, illness, maternity and family leave.

The payment rate for Jobseekers and Illness Benefit is aligned to previous earnings for low paid workers only (i.e. workers with earnings under €300 per week). The policy objective is to ensure that work incentives are not weakened by claimants receiving more money from benefits than from employment. For the majority of claimants however the payment rate is a flat amount.

This is in stark contrast to other high-income EU countries, where short-term contributory benefits are pay-related (i.e. a percentage of the worker's previous wage), designed to secure workers' normal living standards during interruptions in earning.

By way of demonstration, a low-paid (two-thirds of the average wage) single worker in Ireland aged over 25 years has just 39% of their gross wage replaced by our €203 unemployment payment if they lose their job. The same worker would have 91% of their wage replaced by the welfare system in Belgium, 82% in Denmark and 71% in the Netherlands.

Because our income supports are a fixed amount, the replacement rate falls as earnings rise leaving middle and higher-income workers exposed to an even bigger drop in their living standards when out of work. For example, a worker earning the average annual wage (€40,000) has just a quarter (26%) of their gross wage replaced by Jobseekers Benefit.

There is a means-tested top-up payment to cover some of the cost of housing if renting in private rented accommodation. But there is no extra income support available to workers with a mortgage to repay.

Replacement rates improve if instead of comparing single people we compare couples with children. But entitlements for single people show how well a welfare system protects workers in their capacity as workers. In this regard, income protection for workers in Ireland is exceptionally weak by EU standards.

3 Good quality public services, welfare provision and infrastructure are financed mainly from taxation and PRSI. What are the features that you think our taxation and welfare systems should have in order to meet these needs?

Please specify::

TAXATION SYSTEM:

Ireland's taxation system must simultaneously adhere to the principles of economic efficiency, simplicity, horizontal and vertical equity. These principles should apply equally to the taxation of consumption, income and wealth, regardless of source.

Following on from our answer to Q.2 above, Ireland's taxation system needs to have a broader tax base and to limit the use of tax expenditures than is currently the case.
Ireland is one of a handful of EU member states that has repeatedly received country-specific recommendations (CSRs) under the European Semester process over recent years to broaden the tax base and to limit the use of tax expenditures. The European Commission's country report Ireland 2020 concluded that measures adopted over recent years were not 'meaningfully contributing' to broadening the tax base and limiting tax expenditures and that some of the measures adopted in Budget 2020 'even broaden the scope for tax expenditure and narrow the tax base'.

In addition, in 2019 and again in 2020, Ireland also received CSRs to tackle 'aggressive tax planning'. Again, it should be noted that in approving Ireland's National Recovery and Resilience Plan (RRP), the EU implementing decision, stated that the reforms set out in the RRP are 'expected to contribute to partially addressing features of the tax system that facilitate aggressive tax planning.' (European Council (August 2021) Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Ireland).

WELFARE SYSTEM:

We should strengthen the contributory principle and provide public services rather than secondary cash transfers.

Unlike our welfare system of subsistence level flat-rate income supports, the European-model of pay-related contributory benefits ensures workers can continue to pay their mortgage and other financial commitments, thus maintaining their normal living standards during breaks in employment.
Pay-related benefits also promote greater public support for social spending, making the welfare system less susceptible to attacks that there are 'people who pay for everything while getting nothing in return'. During economic downturns they reduce the shock to the economy by protect consumer demand and jobs in sectors reliant on discretionary spending (i.e. they are countercyclical).

A move to pay-related welfare benefits would also support more equal sharing of caring responsibilities in working families. For example, the uptake of two new payments - Paternity Benefit (2016) and paid Parent's Leave (2019), has been disappointingly low. Only half of eligible fathers working in the private sector have availed of Paternity Benefit. The primary driver for this is the payment's low replacement rate. The average weekly take-home pay in the private sector (pre-pandemic) is over 2.5 times the value of Paternity Benefit - €642 compared to €245. Unless an employer pays a top-up, and there is no legal obligation on employers to do so, the average working family will experience a sizeable drop in their household income if both parents avail of maternity and paternity leave on top of the added expense a new baby brings.

Access to quality public services is also vital to workers' living standards, whether in or out of employment. Free-of-charge or low-cost publicly funded goods and services reduce out-of-pocket expenses and amount to a virtual income.

Again, Ireland is atypical in favouring means-tested income top-ups to purchase services on the private market over directly provided public services. As such, workers above low earnings are required to pay market prices for essential goods and services, such as housing and primary healthcare, that workers in other high-income EU peer countries can avail of on the basis of need at little expense to the individual worker.

One example to illustrate this point is the cost of childcare for working families. Childcare fees for working couples in Ireland are the highest in the EU27. An average wage earner and a low-wage earner with two pre-school children will typically pay 20% of their joint income for full-time childcare. While this is partly explained by chronic underinvestment by successive governments, the main contributing factor to our crippling cost of childcare for working families is the over reliance on private for-profit businesses to provide childcare facilities. Our EU peers, in stark contrast to Ireland, view childcare as an essential public service for which the state is primarily responsible for delivering and resourcing.

4 In your view, what main reforms are necessary so that the Irish taxation and welfare systems can embrace the opportunities and meet the challenges that Ireland may face over the next 10-15 years?

Please outline your views::

TAXATION SYSTEM:

The main taxation reforms that are needed are broadening the tax base and limiting tax expenditures. The aggregated level of revenue raised needs to increase significantly. We need to pay for ageing, for the zero-carbon transition, the digital transition, for an expansion of universal basic services (e.g. childcare), for an expansion of social insurance benefits, and for the housing crisis. Our specific reforms are set out in our answers to further questions.

We would also make the point that these reforms are necessary not just to 'embrace the opportunities and to meet the challenges that Ireland may face over the next 10-15 years' but also arising from Ireland's commitments under European and international policy. We believe this is also implicitly recognised in the terms of reference.

To give one example, the terms of reference state that the Commission 'will have regard to the principles of taxation and welfare policy outlined within the Programme for Government…'.

This programme includes a commitment to the 'rigorous implementation of the new social inclusion strategy, A Roadmap for Social Inclusion 2020-2025'.

The Roadmap in turn was 'informed by current European and international policy, including the Europe 2020 Strategy, the European Pillar of Social Rights, the European Social Charter and the UN Sustainable Development Goals' (Government of Ireland, 2020).

In short, the Commission should take account of Ireland's European and international commitments of relevance to the issues it is considering, including those flowing from the European Pillar of Social Rights and the recent European Pillar of Social Rights Action Plan (2021).

WELFARE SYSTEM:

(i) Social Spending
Public spending in Ireland was €77.5 billion in 2019 (pre-pandemic). However, per capita public spending (excluding interest payments) was the lowest among comparable EU member states (i.e. Austria, Belgium, Denmark, Finland, France, Germany, Netherlands and Sweden). Ireland spent €2,801 per person below the average spend. This amounts to an annual spending shortfall of €14 billion when scaled to the population. To put this in perspective, a public system of childcare could be delivered for €2 billion. Our demographic advantage (i.e. our comparatively low age-related expenditure) only explains a fraction of the spending gap.

Not only has Ireland chronically low levels of public spending, our revenue yield from taxes and social contributions is lower than the EU27 and rich EU averages. See further at Chapter 1 Q.2.

(ii) Very-Low Work Intensity Households
Ireland has the largest share of people living in very-low work intensity households (i.e. households where the adults of working-age are in employment for less than 20% of the available time) compared to similar rich European countries, which contributes substantially to our high levels of market income inequality. Households with little or no earnings rely on the welfare system for their income and are at a high risk of living in poverty.

Tackling household joblessness will require a wide range of policy interventions, including increasing the provision of childcare and eldercare public services (i.e. many jobless households contain adults who are involved in caring duties e.g. lone parents and carers) and applying a work-test to the qualification conditions for working-age Qualified Adults on long-term income supports, as recommended by NESC Report 151.

These measures will also help to close the gender employment gap.

Figures from Eurostat for 2019 (pre-pandemic) show the participation rate for men remains higher than for women in all EU27 countries. However, among high-income member states, the gap is widest in Ireland.

Narrowing the focus to women with children, the participation rate is above 80% in Sweden, Denmark, the Netherlands, and Finland. Ireland has one of the lowest rates of working mothers in the EU27 alongside Italy, Greece and Spain, where a third of women with children are outside the workforce. Of those who remain in employment, one in three (34%) working mothers in Ireland work part-time. This wide variation across the EU in employment among working mothers is largely explained by variation in access to and affordability of childcare.

(iii) Population Ageing
Population ageing presents a considerable challenge for the public finances in general and the Social Insurance Fund in particular if no action is taken. Pension expenditure is both the largest component of age-related expenditure and the expenditure component where the largest increase will occur over the coming decades.

Congress is pleased to see so many of our policy positions included in the Pensions Commission's suite of recommendations to secure the future sustainability of the State Pension and the Social Insurance Fund. Specifically, increasing employer and self-employed social insurance contributions, introducing auto-enrolment and moving to a total contributions approach for calculating entitlement, ringfencing State Pension contributions, benchmarking and index-linking the payment rate.

Priority must be given to implementing two recommendations. Firstly, moving to a European-style flexible pension age, including a right to retire on a full State Pension from age 65 to workers who have worked from a young age. Congress was first to call for early access to the State Pension and we urge Government not to delay in introducing this provision.

Secondly, introducing new legislation to allow, but not compel, workers to remain in their jobs up until at least the pension age. Congress has long argued existing soft measures have proved inadequate for far too many workers who wish to keep their job beyond the retirement age specified in their employment contract.

(iv) In-Work Training

Meeting the needs of workers who may be affected by Brexit, decarbonisation, or digitalisation will require a considerable increase in in-work training.

Recognising this, the UK Government recently announced a Lifetime Skills Guarantee funded through the National Training Fund.

Just 53% of people in Ireland (aged 16-74) report having basic or above basic digital skills, below the EU27 average of 56% and well below the rates of 79% in the Netherlands and 76% in Finland. In addition, the proportion of adults in Ireland who reported taking part in education and training over a four-week period was 11% in 2019 (pre-pandemic), above the EU27 average of 9% but again well below the highs of 28.6% in Sweden and 27.6% in Finland.

The OECD has confirmed that Irish businesses provide less training to employees than those in other OECD countries, and that Ireland provides no statutory entitlement to training leave, as is common in the majority of European countries that have comparatively high training participation. France for example compensates workers undertaking training leave between 80% and 100% of their wage. The OECD accordingly recommends the provision of statutory leave and paid training leave, amongst other measures, adding that these would encourage training up-take by both younger and older workers (OECD Economic Surveys: Ireland 2020).

Congress recommends Government act on the OECD recommendation to introduce a statutory right to paid training leave to mitigate the impact of Brexit, decarbonisation, or digitalisation funded through the National Training Fund levy.

(v) Short-Time Work Scheme
Congress has advocated for a number of years for the introduction of a genuine short-time work scheme (STWS) to minimise the impact of a temporary business disruption on employment by supporting the jobs of workers in vulnerable but viable firms.

While Ireland has had short-time work support for many years, as the Government now acknowledges this is 'a form of Jobseeker's Benefit' for employees with sufficient PRSI contributions 'who have been temporarily placed on a shorter working week by their employers' (DSP (23 July 2020) July Stimulus press statement).

Our more ambitious proposal is based on the effective STWSs in place in other European countries, particularly Germany, Austria and the Nordics. These schemes provide state supports for workers in firms or sectors hit by a reduction in demand, but on condition that participating firms meet certain criteria, including the conclusion of a collective agreement so that participation addresses the needs of both employers and employees and the promotion of training during non-worked time. These schemes are often complemented by sectoral collective agreements which ensure a higher replacement rate for participating workers of up to 100% in some cases. The IMF says Germany's STWS 'Kurzarbeit' scheme, which is based on these principles, is 'widely considered the gold standard of such programs' (IMF (15 June 2020) Kurzarbeit: Germany's Short-Time Work Benefit).

The hastily introduced Temporary Wage Subsidy Scheme (TWSS) in March 2020 and its successor the Employment Wage Subsidy Scheme (EWSS) have proved very effective at mitigating the impact of the pandemic on jobs and incomes.

Government has agreed to continue the EWSS until 30 April 2022. It also intends to 'review and refine as necessary the 'short-time work scheme… in line with international best practice by 2022' (Government of Ireland, (June 2021) Programme for Government).

Congress recommends the EWSS should be transformed into a genuine STWS, modelled on the most effective schemes in place in Germany, Austria and the Nordics. This would incidentally be in line with IMF advice to the Government that 'Income support measures should become increasingly conditional on re-skilling, and further shift toward subsidising new hiring in the expanding sectors. Business support measures should also be increasingly targeted to affected but viable firms' (IMF (12 May 2021) Ireland: Staff Concluding Statement of the 2021 Article IV Mission).

Chapter 2 - Fiscal Sustainability

1 What reforms to the taxation and welfare systems should be considered to ensure the system is sustainable and resilient and that there are sufficient resources available to meet the costs of public services in the medium and longer term?

Please specify taxation reforms you consider important::

At the outset, it is important to make the point that Ireland's public finances were on an improving path prior to the pandemic; the (gross) debt/GNI* ratio stood at 96% and the general government deficit was 0.5% of GNI* in 2019.

The measures introduced to support incomes and to maintain the productive capacity of the economy once the pandemic reached Ireland have inevitably contributed to reversing this downward trend but, as Your Vision, Our Future acknowledges the fiscal position is forecast to improve as the pandemic subsides. The Department of Finance estimates a debt/GNI* ratio of 106% in 2021 and forecasts that it will fall to pre-pandemic levels in 2023 and to less than 90% of GNI* by 2025 (Department of Finance (2021) Economic and Fiscal Outlook).

Furthermore, the cost of borrowing to the state is also unlikely to increase significantly as long as the European Central Bank's willingness to buy government debt continues at its current levels.

In view of the issues and challenges facing Ireland and given the relatively low level of revenue raised (and hence resources for public spending) outlined above, Ireland needs to increase the levels of revenue raised to initially the EU27 average and thereafter to the average of comparable high-income European countries. This objective should be attained over the medium-term and by 2030 at the latest – the date for the achievement of the UN SDGs, for some of the targets set in the Climate Action and Low Carbon Development (Amendment) Act 2021 and for the headline targets for the European Pillar of Social Rights Action Plan.

The amount of revenue generated over the coming years would obviously need to be calibrated at a level that is close to the level of spending over the

same timeframe but an appropriate long-run average government deficit of 2% to 3% of GNI* would be prudent and sustainable in the context of average nominal GNI* growth of close to 5% (with lower growth rates necessitating smaller deficits).

This strategy is consistent with our long-standing advocacy of measures to ensure fiscal sustainability. Our pre-budget submissions over recent years have consistently argued against the Government's tax-cutting agenda and repeatedly called for a broadening of the tax base and for reforms of tax expenditures. Our submissions over recent years have recommended raising social insurance contributions from employers and the self-employed, reform of the system of capital taxation including tax expenditures, and the introduction of a net wealth tax on households with net assets of more than €1 million, amongst other measures.

The best way to ensure fiscal sustainability is to raise employment levels. This view is echoed in the 2020 Programme for Government's statement that the Government's approach to the public finances will be guided by a number of principles, including that '[a] the economy returns to growth and employment growth is restored, the deficit will be reduced year on year to underpin the sustainability of the public finances.'

However, as statistics from Revenue on the first year of real-time payroll reporting illustrates 62% of all employees earn below €36,000 gross (Revenue (June 2020) Statistics and Insights from the First Year of Real-Time Payroll Reporting). Ireland is fundamentally a low pay economy which in turn reduces the potential tax yield. Decent jobs with collectively bargained wages would remedy this.

Since consideration of how to increase employment levels forms a central part of the mission of the Commission and since the terms of reference include consideration of how 'taxation practices in other similar sized open economies in the OECD to see what lessons Ireland can learn from such countries,' the Commission should consider in particular the taxation practices of other European countries, particularly other high-income western European countries, with higher employment rates than Ireland.

Given that many other European countries that raise considerably more revenue than Ireland from employers' social insurance contributions, from the self-employed and from capital stocks have higher employment rates and are ranked more competitive than Ireland, the potential clearly exists to raise more revenue from these three principal sources over the coming years.

Please specify welfare reforms you consider important::

(i) Tackle Bogus Self-Employment
The Department of Social Protection's Ministerial Brief, Part b (June 2020) acknowledges a point repeatedly raised by Congress that false self-employment results in the loss of employer social contributions to the Social Insurance Fund and the loss of employment and welfare rights for workers.

Ireland is committed under the 2019 EU Recommendation on Access to Social protection for Workers and the Self-employed, to 'preserving the sustainability of the [social welfare] system and implementing safeguards to avoid abuse'.

The November 2020 NESC report The Future of the Irish Social Welfare System: Participation and Protection discussed a number of reforms to tackle bogus self-employment. These included a single social insurance rate, social dialogue, sectoral employment orders and/or collective agreements focused on the 'dependent' self-employed and/or platform workers.

Other potential reforms to help address the problem include the implementation of the Competition (Amendment) Act 2017 enabling trade union representation of 'false or dependent' self-employed, and the establishment of a tripartite group (e.g. the LEEF) or similar body to explore and recommend further effective options to combat 'false' self-employment.

NESC also points out that the Government had committed in 2019 to develop legislation 'to make it a criminal offence to wilfully misclassify a person as self-employed when he or she is an employee', including penalties and anti-victimisation measures. NESC also proposed that additional data be collected 'where it would be useful to help deliver key goals of [its 2005 report] The Developmental Welfare State', including on false self-employment.

We note the European Commission has recently proposed a directive aimed at improving working conditions for people working through digital labour platforms, and the Department of Employment's plan to establish a False Self-Employment Group in Q1 2022, to be chaired by Minister English, to put forward solutions. Congress must be consulted on the terms of reference and Government and the chair must commit to a clear timescale.

(ii) Increase Contribution Rates
The self-employed pay a 4 per cent rate of social insurance compared to the standard 15.05 per cent rate paid in respect to most employees – comprising of 4 per cent payable by the employee and 11.5 per cent by their employer.

Historically, the self-employed only qualified for a narrow range of contributory income supports which was the justification for their smaller social insurance contribution. But this is no longer the case.

Following reforms by the last Government, access to contributory invalidity, jobseekers, parents, paternity, and treatment benefits was extended to 350,000 self-employed contributors without any corresponding increase in their 4 per cent contribution rate. As such, the self-employed are now covered for all but four of the two dozen contributory benefits paid out of the Social Insurance Fund in return for a contribution 11 percentage points lower than that made in respect of employees.

The State's own advisory body, the Tax Strategy Group, has repeatedly proposed that consideration be given to adjusting the self-employed contribution rate to that of the standard rate of employer social insurance (from 4% to 11.05%) incrementally over four budgets. They estimate this will yield €1.5 billion per annum to the Social Insurance Fund.

See further at Chapter 3 Q.4 re. employer and employee social contributions.

(iii) Progress to the Living Wage
In 2019 (pre-pandemic) over €397 million was paid out in corporate welfare through the Working Family Payment scheme to 53,104 working poor families with (119,471) children.

The National Minimum Wage (NMW) is €10.50 an hour for workers aged 20 or over since 1st January 2022. This equates to 81% of the €12.90 an hour Living Wage calculated by the Living Wage Technical Group.

The Programme for Government commitment to 'progress to a living wage over the lifetime of the Government' is a de facto acknowledgement of the inadequacy of the current NMW.

Progression to a Living Wage must also be considered within the context of Ireland's commitments under the European Pillar of Social Rights to fair wages (principle 6), collective bargaining (principle 8) and gender equality (principle 2).

The NMW rate must be considered too alongside the negotiations taking place on the Directive on adequate minimum wages, issued by the European Commission in October 2020. This directive seeks to ensure the adequacy of statutory minimum wages by assessing them against the international adequacy indicators of at least 60% of the national median wage and 50% of the national average wage.

Crucially, the directive recognises that the best way of achieving this is through collective bargaining, pointing out that: '…countries with high collective bargaining coverage [i.e. of at least 70%] tend to display a lower share of low-wage workers, higher minimum wages relative to the median wage, lower wage inequality and higher wages than the others.' (European Commission (28 October 2020) Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union (COM(2020) 682 final).

It should also be noted that the European Commission estimates that Ireland would, in time, see the greatest 'savings of any EU country in expenditure on state supports to low-paid workers with children, amounting to approximately 0.25% of GDP. Furthermore, as the National Women's Council points out, achieving an NMW of 60% of median wages would also reduce Ireland's gender pay gap by 10%.

(iv) Implement Pensions Commission Recommendations
Congress has never denied the challenge population ageing presents for the public finances if no action is taken.

However, the 2011 Pensions Act put Ireland on course to have the highest pension age in the OECD in 2028, despite our young population. It went too far too fast and forced workers at 65 to sign-on, putting them at risk of poverty at the end of a long working life.

The Pensions Commission has produced a comprehensive and detailed report which puts forward a wide range of recommendations to share the increasing costs of the State Pension between the State, employers, the self-employed, workers and the generations.

The majority of recommendations, if adopted by Government, will deliver a significant improvement on previous government pension policy for workers.

That said, the report is not without challenges which will need to be resolved. For example, we have grave concerns on the recommendation to remove the exemption to pay PRSI on people aged 66. See further at Chapter 3 Q.4.

Government must continue to engages with the social partner on these outstanding matters to ensure the increasing financial costs of the State Pension will, as intended by the Pensions Commission, be shared fairly and equitably.

2 Rate each issue below in terms of strategic importance to the taxation and welfare system over the next 10-15 years (1 being least important and 5 being most important):

importance options - Achieving good public health outcomes for our people:
5

importance options - Addressing the climate crisis:
5

importance options - Adequate social transfers and benefits:
5

importance options - Growing employment:
5

importance options - Sustainability of public finances:
5

importance options - Sustained economic growth:
5

3 Given approaching demographic pressures and future uncertainties, future funding of public services is a critical issue. In order to meet these challenges, what is the appropriate balance between the taxation of a) earned income, b) consumption e.g. VAT and c) wealth e.g. capital acquisitions tax?

Please outline your views::

As discussed above, the NERI has established that Ireland raises less revenue from employers' social insurance contributions, from the self-employed and from capital stocks i.e. wealth (Goldrick-Kelly, P., Mac Flynn, P. and McDonnell, T., (2020) Reforming Tax and Spend in the United Kingdom and in the Republic of Ireland, NERI Working Paper 2020 No. 67). Congress proposes significant increases in each of these yields.

Congress pre-budget submissions over recent years have recommended the introduction of a 0.6% rate of tax on net household wealth with a threshold of €1 million. The NERI set out key features of the tax:

"there is a strong case for broadening the tax base to include an annual wealth tax – albeit only one that is well-designed. Such a tax should be related to ability to pay, should seek to minimise economic distortions, and should be as simple as possible. If the core objectives are horizontal and vertical equity then the wealth tax can be seen as a complement to income tax which reflects the additional taxable capacity of the wealth holder. A wealth tax with minimal exemptions and reliefs can also be a valuable tool for clamping down on tax evasion." (McDonald, T (2018) A Household Net Wealth Tax in the Republic of Ireland: Some Considerations Working Paper 2018 No.58).

Given the successful economic performance of many other European countries that raise proportionally more than Ireland from these sources, particularly other high-income western European countries, the 'appropriate balance' would be to raise the same share of total revenue from these sources as at least the EU27 average and thereafter to the average of other high-income European countries as proposed above.

Chapter 3 - Promoting Employment

1 What reforms to the taxation and welfare system should be considered to ensure that taxation and welfare work in tandem to support economic activity and promote employment while also supporting those most vulnerable in an equitable way?

Please outline what reforms should be considered::

As discussed above, Congress believes that there is scope to raise additional revenue from the self-employed.

Our pre-budget submissions over recent years have advocated raising social insurance rates for the self-employed not just on equity grounds to ensure that their contributions match the benefits they now receive but also to remove the incentive for bogus self-employment. In this regard, we would refer to the statement by the Minister for Social Protection when presenting the updated Code of Practice on Determining Employment Status in July 2021, that she shared 'the concern expressed by many commentators over the years that employees should be correctly classified for social insurance, taxation and employment rights purposes'. Congress continues to advocate for stronger measures to tackle bogus self-employment, including in relation to Government commitments to comprehensively tackle this issue through legislative action. Supporting vulnerable workers obviously means supporting vulnerable workers who are falsely classified as self-employed.

In considering this question, the Commission should have regard to the statement in Your Vision Our Future states (p.7) that increasing employment 'involves supporting the economic activity of employers to facilitate job creation and to deliver high quality pay and conditions for workers' (emphasis added). NESC Report 151 (2020) acknowledges that increasing social insurance contribution rates for the self-employed would contribute to reducing bogus self-employment, while the Pensions Commission (2021) states that increasing social insurance rates for the self-employed, 'may reduce bogus self-employment as one of the main incentives – lower PRSI – is removed or reduced'. See further at Chapter 2 Q.1. and Chapter 3 Q.1 re. bogus self-employment and the NESC Report recommendations.

2 Does Ireland's taxation and welfare system strike the right balance between maintaining the incentive to increase earnings and alleviating some of the risks of low income (poverty and deprivation)?

No

Please explain your view::

Given that nearly one million income earners (individuals plus jointly assessed married couples/civil partnerships) are exempt from paying tax it could be argued that the welfare system is of greater significance for the issues being raised here.

However, the inference of this question is that earnings can be increased solely by taking up employment or by increasing hours worked.

It does not appear to countenance the possibility that earnings can also be increased and the 'risks of low income' (including low pay) alleviated through collective bargaining and collective agreements and higher minimum wages. The European Commission has pointed out that countries where at least 70% of workers are covered by collective agreements (compared to 35% in Ireland) tend to have lower rates of low paid workers and allocate a lower share of their social protection budgets on supporting the incomes of low-paid workers. This point is obviously of relevance for the Commission's consideration of our recommendation at Chapter 7 Q.4.

We would also highlight that the NESC Report 151 also advocates making personal and employee tax credits refundable as a means of providing targeted support for low-paid workers, and potentially increasing the incentive for very low paid workers to increase earnings'. Congress has previously proposed the introduction of such a system of refundable tax credits (e.g. ICTU (2014) Pre-Budget Submission Budget 2015, Jobs, Growth and Homes).

3 Are income supports equitable in terms of how they treat people of working age?

No

How is this balanced with the requirement to meet differing needs?:

The Irish welfare system is unusual in that there is no difference in the value of contributory and non-contributory income supports, with the exception of the €11 difference in the State Pension maximum personal rate for pensioners under age 80.

Unlike in EU peer countries, being in employment in Ireland does not confer additional income protection. The only advantage to being an insured worker is freedom from means testing for workers in households with another source of income e.g. with a working spouse or savings.

Critics of the European-style social insurance model will point to the unfairness of short-term income supports for insured workers being more generous than long-term welfare payments for vulnerable groups outside the workforce such as lone-parents, carers and people with a disability.

There is no disputing that the social floor (i.e. non-contributory welfare payments) needs improving. But this is not a binary choice. Moreover, pay-related income supports promote greater public support for social spending, making the welfare system less susceptible to attacks that there are "people who pay for everything while getting nothing in return".

4 What changes to the social insurance system should be considered to ensure sustainability into the medium to longer term? (Please note the recommendations of the Pensions Commission and NESC Report 151 on the future of the Irish social welfare system)

Please specify changes to be considered?:

See Chapter 2 Q.1 and Chapter 3 Q.1 re. bogus self-employment and the NESC Report recommendations.

Self-employed social insurance contributions have long been recognised as being disproportionately low for the range of benefits they are now eligible. See further at Chapter 2 Q.1. Congress agree with the Pensions Commission and a range of other bodies, including the State's own advisory body - the Tax Strategy Group, that the self-employed contribution should be adjusted up to at least the employer rate (currently 11.05%).

Congress recommends that this Commission consider increasing the level of the self-employed contribution to that of the combined total of an employee and employer (15.05%). The rationale being that the self-employed should pay the same amount as paid by employees and employers to receive the same benefits, as is the case in some EU member states. The Pensions Commission had considered such a move. But opted to leave this decision to this Commission.

Congress has a long record of highlighting Ireland as an outlier on employer social insurance contributions. Ireland has the second lowest rate of employer social insurance in the EU27. We are disappointed by the Pensions Commission's lack of ambition in the size of the contribution increase they recommend for employers.

Congress acknowledges Ireland has the 3rd lowest rate of employee social insurance. However, this reflects the exceptionally weak income protection the welfare system currently provides for insured workers. That is, Ireland is atypical by EU standards in paying short-term contributory income supports at a flat-rate, instead of pay-related. See further at Chapter 1 Q.1 and Q.2. Workers cannot be expected to pay European levels of social insurance without corresponding European levels of income protection. Moreover, the Implicit Tax Rate on labour income (income tax, USC and social insurance) for employees in Ireland (24.3%) is actually above the EU27 average (21.1 per cent).

Congress agree with the Pension Commission that a move to making low earners liable for social insurance and increasing the earning threshold (from €38 to €118) would disproportionally affect women, people with disabilities and migrants. We support their decision that due to the potential poverty impact not recommending such a reform.

Congress supports in principle the Pensions Commission's recommendation for intergenerational equity to ensure that the cost of maintaining current pension payment rates etc. is not placed solely on younger workers. However, we have grave concerns for that the recommendation to remove the exemption to pay PRSI on people aged 66 and over could unfairly and disproportionally impact certain groups of pensioners. For example, today's retired and older (pre-1995) civil and public servants have no entitlement to the State Pension and Household Benefit Package (under 70). Many of these workers rely on a public sector pension that is less than the value of the State Pension. They would be liable for a 4% PRSI contribution on their pension income over €100 per week, increasing their risk of poverty.

Congress is also concerned that removing the PRSI exemption on all non-social welfare income for people aged over 66 will result in future pensioners being double taxed on the same income, given that workers have been liable for PRSI on contributions going in to their pension since 2012. It may also act as an employment disincentive for longer working lives.

Chapter 4 - Climate

1 As Ireland moves to a low carbon economy, what should be the role of the taxation and welfare system in:

a) taking advantage of opportunities? :

The taxation and welfare system should complement the overarching role of the State as the main driver of a genuine Just Transition across the economy and wider society. This entails maximising the impact of appropriate investment to generate and support sustainable, good quality jobs across the country. An ambitious, state-led approach to decarbonisation could promote public health, higher living standards, and address persistent regional inequalities.

This includes prioritising investment and employment creation in an expanded public transport service, retrofitting and renewables.

In addition, the taxation system should assist/ facilitate in the development of a new strategic vision for the energy sector that treats energy as a public good and access to affordable energy for all citizens as a basic civic right.

b) mitigating the risks? :

Ireland's taxation and welfare system should be reformed to provide the support needed where transitions between jobs or new training are required. The recently-published report of the Expert Group on Future Skill Needs (Skills for Zero Carbon) sets out the huge requirement to develop new skills among the workforce in order to meet demand in the area of renewables, retrofitting and deployment of electric vehicles. Thus, the taxation must pivot to provide comprehensive support for training and reskilling and ensure those undertaking such programmes are incentivised rather than penalised. See further at Chapter 1 Q.4 re. in-work training and the National Training Fund.

We must also establish a licensing/ taxation regime to ensure that the exploitation of Ireland's offshore wind resources will deliver lower energy costs for families and communities and create an appropriate royalty/ taxation regime for where super profits arise, with revenue utilised to establish a sovereign wealth fund similar to that which exists in countries such as Norway.

c) in meeting Ireland's emissions targets?:

Tax and welfare policy must also promote reductions in emissions associated with consumption. This includes home heating and other essentials, as well as emissions associated with luxury items. Policy should be sensitive to the distinctions between these consumption categories and should treat them separately/ accordingly.

2 Are there existing taxation and welfare measures that are counter-productive to Ireland's climate change commitments?

Yes

If yes, please specify::

Diesel Fuel Rebate Scheme:

According to the ESRI (2018), Ireland is just one of eight EU member states to provide tax relief for use of diesel in commercial vehicles - the Essential User Fuel Rebate, which was introduced in 2013.

The study shows that the scheme does not help - as was claimed on its introduction - to generate additional revenue for the exchequer, via increased commercial traffic and haulage and was more likely to result in revenue being lost (Morgenroth, E et al (2018) The Environmental Impact of Fiscal Instruments. Dublin: ESRI).

From an environmental perspective, the scheme appears to have encouraged far greater usage of diesel than might otherwise have been the case and led to far higher emissions across the haulage and transport sector.

It is clear that such incentives are incompatible with newly proposed carbon budgets and this must be addressed. The possible cost impact for the sector could best be addressed through improvements in the HDV Grant Scheme to encourage greater take up of lower emission vans and trucks.

See further at Chapter 7 Q.3 re fossil fuel tax expenditure.

To what extent are these justified in the Irish context and are any reforms necessary?:

With respect to carbon taxes, it is clear that these should act in manner that does not punish those who do not have the opportunity or capacity to avail of new technology or utilise alternative fuels, as this is entirely counter-productive and will merely increase opposition to the transition process.

Given widespread fuel poverty in the state, policy that implicitly supports fossil fuel use in home heating is understandable in current conditions. However, this support cannot be continued indefinitely in light of climate responsibilities. Tax and welfare policy must move to promote energy efficiency in the housing stock, through support for deep retrofits. While there appears to be a consensus on the necessity of home retrofits, policy to date has not been sensitive enough to the significant cost impediments facing householders (both owners and renters) – which include substantial upfront capital costs that are unaffordable for many.

It is imperative that the taxation system and other levers are utilised to ensure that households are not denied access to the benefits of retrofitting due to lack of resources.

In policy and economic terms, it is clear that a major national retrofit programme can deliver substantial financial and economic gains for the State and economy; through the creation of new employment and additional tax revenue; spending on supplies and materials required for the programme; the savings in disposable income to households that will likely translate into increased demand across the economy.

3 What changes should be made to the taxation system to ensure longer term fiscal sustainability given the expected impact of the continued decarbonisation of the Irish economy, in particular the impact of reducing tax revenues from energy, carbon and motor taxes?

Please detail the changes::

Clearly, the shift to electric vehicles will impact on existing revenue streams from carbon fuels and the development of a new, replacement revenue streams afford an opportunity to entirely rethink transport policy with the taxation system utilised to incentivise greater usage of public transport and to make public transport more accessible and affordable. For example, the Oireachtas Climate Committee has examined costings on making public transport free for all. Conversely, a progressive system of congestion charging could help free up road space for public transport thereby facilitating improved services and greater usage.

Revenue losses could be met by addressing existing taxation shortfalls in employer PRSI, taxes on capital assets. Meeting averages seen in other highly

developed EU states could raise billions in additional revenues.

Chapter 5 - Housing

1 Taking into account previous taxation related interventions in the housing market, what role do you think the taxation and welfare systems have to play in contributing to the long-term supply of housing?

Please outline your views::

The role of both the taxation and welfare systems inextricably linked and bound up with the overall role of government in the housing market and driven by official policy on this issue.

Over recent years, we have witnessed the retreat of the State from its core role in housing provision and the effective abandonment and outsourcing of that function to private developers and private interests.

The role of the State in housing is now secondary to that of private developers and interests and amounts to little more than the provision of (tax) incentives and subsidies, resulting in expenditure that is wasteful, unsustainable and, over the longer term, harmful to the common good.

Thus, as State spending on the direct provision of public housing and affordable homes has collapsed (2008-2011), so welfare spending has accelerated to fill the gap and the address the deficit in public housing by way of schemes such as HAP.

This now accounts for the majority of 'public housing provision' on the part of the State and constitutes a massive annual subsidy to private landlords. In terms of developing sustainable public housing provision, it is wasteful expenditure as the State gains no asset, the tenant enjoys no additional security and there is no addition to the public housing stock. (Similar observations could be made in respect of long-term leasing of homes by local authorities).

It is far better to commit to a gradual tapering of HAP and similar subsidies and redirect this into more productive investment in provision of new public and affordable homes, by the State.

It is far better to commit to a gradual tapering of our reliance on HAP and similar subsidies and redirect into more productive investment in provision of new public and affordable homes, by the State.

That our current unhealthy dependency on the such spending for housing provision does not deliver value for money and is unsustainable in the longer-term, has been underlined by a analysis carried out by DPER, as part of the 2021 Spending Review (An Overview of the Irish Housing Market and Policy, Nov 2021).

The DPER report noted the substantial rise in spending associated with the form of provision in recent years, a reverse of previous policy. It pointed out that new build homes accounted for "the largest share of newly-supplied social housing units" from 2004-2009. But by 2020, HAP accounted for the largest share "by a significant margin", followed by builds, lease and acquisition.

The report contrasted this with Austria, where 'demand-side interventions' such as HAP, RAS etc played a far less prominent role in housing provision with construction by local authorities and not for profits being the "primary drivers" of social and affordable housing supply and a more stable, accessible housing system.

It concluded that: "..the current level of spending on short-term housing supports such as HAP and RAS, and long-term leasing schemes through which the State does not acquire an asset at the end of the lease, does not represent value for money."

Similarly, a December 2021 report from the Public Accounts Committee (PAC) found that spending on HAP, RAS and SCHEP was almost 28% of the Housing Department's expenditure for 2020.

It concluded that: "..the current level of spending on short-term housing supports such as HAP and RAS, and long-term leasing schemes through which the State does not acquire an asset at the end of the lease, does not represent value for money."

The Committee recommended that spending in these areas be reduced and focused instead on "increasing capital expenditure on housing stock that will remain an asset of the State."

In a similar manner, tax reliefs for large institutional investors in the PRS amount to preferential treatment and revenue foregone by the State. These have contributed hugely to the effective 'financialisation' of the housing sector, which in turn has created a major and growing affordability gap with the majority of young families and workers now priced out of the market.

The solution is not, as current policy has it, to subsidise existing high prices through the First Home shared equity model - which merely serves to support or inflate those prices and worsen affordability.
The focus should be on delivering genuinely affordable homes to buy and rent, as opposed to making what is on offer more affordable and thereby supporting high (and rising) prices.

2 Should the taxation system have a role in supporting or promoting any specific form of housing tenure (e.g. home ownership, rental), or should it remain neutral?

Yes, taxation should have a role

Please elaborate further::

Taxation should seek to foster a model of sustainable housing provision that ensures affordable, secure homes for all, be they rental or purchased. The key issue in housing today is affordability and this must be a cornerstone of future policy in this area.

3 What in your view is the role that taxation should play in housing affordability?

Please outline your views::

The taxation system should seek to support affordability and not to inflate the market or to support/ subsidise market price levels. Policy (and taxation) must work to make housing affordable for all, not to make what is on offer more affordable for buyers.

4 Following the introduction and recent amendments to the Local Property Tax (LPT) and the commitment in Housing for All to introduce a new taxation measure to activate vacant land for residential purposes, do you consider there is a role for a Site Value Tax in Ireland?

Yes, Site Value Tax has a role

Please elaborate further::

In principle, the Site Value Tax is a worthwhile concept, although it is our view that the Local Property Tax should also be retained. All other land should be covered by a Site Value Tax or by some form of commercial property tax. However, we acknowledge the application of an SVT would have to be carefully considered and framed to ensure there was full transparency around valuation and it would fully reflect and capture the true value of all sites, including the income generated and investments linked to the site.

Chapter 6 - Supporting Economic Activity

1 How can Ireland maintain a clear, competitive, sustainable, and stable taxation policy with regard to its attractiveness to Foreign Direct Investment (FDI) in light of the rapidly changing global environment?

Please outline your views::

Congress would question whether Ireland's corporation taxation policy with regard to FDI has over recent years has actually been 'sustainable' and 'stable'.

For one, numerous national and international commentators have drawn attention to the increasing dependence of the Exchequer on corporation tax, which now accounts for one-fifth of total tax revenues, and the fact that half of total corporation tax receipts accrue from just 10 multinationals.

Furthermore, Ireland's corporation taxation policies have provoked increasingly critical international analysis and commentary over recent years, some of it justified. We note for example that the Tax Justice Network ranks Ireland in 11th place on the Corporate Tax Haven Index 2021, concluding that Ireland is responsible for approximately 3.3% of global corporate tax abuse risks despite having less than 0.1% of the global population (Tax Justice Network (2021) Corporate Tax Haven Index - 2021 Results).

International changes in the taxation of multinationals that are now underway are welcome from a tax justice perspective but they will clearly have consequences for the public finances and for current policy to attract FDI.

Rather than seeking to 'maintain' the pre-existing approach, Congress would argue that Ireland should be one of the 'first movers' in implementing the new global policy regime and equally importantly begin to develop a more rounded industrial development strategy that is less dependent on taxation policy for attracting FDI and less liable to give rise to reputational damage for the country.

2 How can the taxation environment support indigenous enterprise, particularly small and medium sized enterprises (SMEs) to be productive, to innovate and be competitive internationally?

Please specify::

One measure that we believe should be subject to more thorough review is the R&D tax credit. This measure cost €626 million in 2019 (pre-pandemic), with 1,600 firms benefiting, up from €355 million and 1,300 firms in 2018.

Revenue estimates that €460 million (73%) of this was claimed by approximately 200 large corporate taxpayers and €166 million (27%) by approximately 200 medium and smaller firms. In 2014, the final year covered in the 2016 IGEES economic evaluation of this measure, €427 million (77%) of the total cost of €553 million was claimed by large enterprises, with €126 million claimed by medium and smaller firms.

The IGEES review also concluded that 'deadweight is a noteworthy 40% of observed R&D since 2009' and that this level of deadweight indicated that there 'may be scope to increase the "bang for buck" without materially damaging business incentives to invest in R&D'.

While changes were made to this measure in Budget 2020, it should be noted that the European Commission's assessment of Ireland's 2021 National Recovery and Resilience Plan criticised the fact that 'a significant share of public support for R&D in firms continues to come through the research and development tax credit, rather than direct support to SMEs'. The Commission pointed out there was a significant fall in business expenditure on R&D in Ireland in 2019 leading R&D expenditure to fall to 0.78% of GNI*, well below the EU average of 2.2% (of GDP) and the EU objective (for 2020) of 3% (European Commission, July 2021).

3 With regard to starting, scaling or growing a business in Ireland:

a) what features of the current taxation system work well?:

Congress would point to the decision to warehouse tax liabilities for businesses adversely affected by the pandemic to delay payment of their PAYE and VAT debts, in part or in full, for a set period with no interest or penalties as a recent example of a feature of the current taxation system that works well with regard to starting, scaling or growing a business in Ireland. The IMF has noted that this measure along with others introduced since March 2020, has 'been effective in limiting solvency and liquidity gaps, while also resulting in lower credit demand by nonfinancial corporates' (IMF (June 2021), Ireland 2021 Article IV Consultation).

b) what features do not work well and how can these be improved?:

Congress would refer here to our answers to Chapter 7 Q.3 in relation to the Capital Acquisitions Tax (CAT) business and agricultural relief and the Capital Gains Tax relief which recommends fundamental reforms of a number of tax expenditures.

We note that Kaloulidou and Roantree (2021) say the primary beneficiaries of these tax expenditures are not small family-businesses but 'more substantial' firms. They say that there is strong evidence these inherited family-owned and -run firms, are on average very poorly managed, and they question the 'wider economic costs of discouraging the disposal of business assets to third parties.'

We would also refer here to our answers in relation to raising PRSI rates from the self-employed. Kaloulidou and Roantree also say that 'blanket lower rates of tax – including PRSI – are...poorly directed at encouraging entrepreneurships or business start-ups'.

Chapter 7 - Tax Expenditures

1 How do you think the process of reviewing taxation measures and taxation expenditures is currently functioning?

Please outline your views::

Information regarding taxation expenditures has increased dramatically and the process of reviewing taxation measures and taxation expenditures have improved in the years since the work and the report of the 2008/2009 Commission on Taxation, particularly since Council Directive 2011/85/EU took effect and the Department of Finance published new guidelines for taxation expenditure in 2014.

However, we believe there is still considerable room for improvement.

First, while the 2014 Department of Finance guidelines for taxation expenditure evaluation sets out a 'comprehensive evaluation structure' for the review of taxation expenditures (Department of Finance, (2019) Tax Expenditure Tax Strategy Group 19/12), the 2019 Houses of the Oireachtas Committee on Budgetary Oversight Tax Expenditures report noted that nearly one quarter (23%) of all tax expenditures had never been reviewed. This situation would have improved in the intervening years the fact remains that a considerable number of tax expenditures have never been reviewed.

Second, while the 2014 guidelines state that 'all tax expenditures should be time limited' and the Department of Finance's stated policy of 'applying sunset clauses to all new and (where appropriate amended) tax expenditures is in effect' (Department of Finance, 2019), the 2019 Budgets Oversights Committee report noted that 87% of all tax expenditures did not have such a clause. Again, while the situation would have improved since then, a very considerable number of tax expenditures still do not have a sunset clause.

Third, questions could be asked regarding the thoroughness of some reviews that have been carried out: 'Evaluations are routinely based almost exclusively on responses to surveys of beneficiaries gathered through a non-representative public consultation process, a methodology which cannot deliver rigorous or credible evidence on their impact' (Roantree, B. (24 June 2021), Remarks at the Oireachtas Budgetary Oversight Committee).

Finally, a point has to be made regarding the Government's responses to reviews of tax expenditures. As discussed above, Ireland has received country specific recommendations to limit 'the scope and number of tax expenditures' in each of the years in 2015, 2017, 2018, 2019 and 2020, with the Commission's country report for Ireland generally reporting limited progress. The Commission's 2020 report criticised the fact that 'some measures included in the 2020 Budget even broaden the scope for tax expenditure and narrow the tax base' (European Commission (2020) Commission Staff Working Document: Country Report Ireland 2020, SWD (2020) 506 final). These include increases in certain tax credits, an extension of the Help-to-Buy scheme and higher capital acquisition tax allowances.

How well defined do you think the benchmark taxation system is in Ireland?:

Ireland's benchmark taxation system is not well defined.

The Houses of the Oireachtas Parliamentary Budget Office paper stated that the 'definition of the benchmark system varies substantially across jurisdictions, making international comparison extremely difficult. However, there is also a lack of consensus in the Irish context regarding which measures should be classified as belonging to the benchmark system' (PBO (2018) Tax Expenditure in Ireland: Key Issues for Consideration).

One of the four 'key messages' of this paper was that 'consideration might be given to establishing a definitive list of benchmark measures and tax expenditures that are in effect in Ireland. At present, there are discrepancies between the Revenue Commissioners and the Department of Finance regarding the classification of measures as tax expenditures'.

The 2019 Committee on Budgetary Oversight (BOC) report in turn stated that in its evidence to the Committee, the Department of Finance had stated that difficulties in defining the benchmark system resulted in different classifications of tax expenditures being used by the Department and the Revenue Commissioners and that both organisations acknowledged that working towards an agreed approach to classification of tax expenditures is something

that could be addressed in the medium term.

It should be noted that the BOC report stated that the Committee 'recognises that difficulties classifying tax expenditures are common across the OECD', and that the BOC report did not appear to make any specific recommendations as regards the definition of the benchmark system.

Furthermore, the Department of Finance's July 2019 Tax Strategy Group paper 19-12 stated that, as 'the respective [Department of Finance and Revenue] lists have been designed for different purposes, there is therefore no discernible benefit to be gained from adopting a unified list of tax expenditures.'

We would also refer to Dr Barra Roantree's comments to the BOC in June 2021, that the 'whole area of tax expenditures is fraught because it is both conceptually and empirically difficult to work out how much many of these things are costing. The reason for this is often that these are measured relative to a benchmark and it is not always clear what the benchmark should be'.

Finally, we note that the European Commission's February 2020 Staff Working Document on Council Directive 2011/85/EU stated that while Article 14(2) of the Directive included a requirement to publish detailed information on the impact of tax expenditures on revenues. However, that general requirement was not further specified by means of a detailed template, although the Commission did issue a guidance note ['note to the Economic Committee, July 2013'] that provided Member States with recommendations as regards the coverage and level of detail of the tax expenditure information.'

The Staff Working Document's overall conclusion on this point is that 'the published information on tax expenditures…is too varied' (European Commission, 2020).

To conclude on this question, Congress does not believe that the benchmark system is well-defined, but acknowledges that this is not an easy issue to resolve. We would suggest as a possible way forward that consideration be given to reviewing the European Commission's 2013 guidance note to see if there is scope for addressing this situation.

2 How do you think the process of taxation expenditure review could be improved?

Please specify::

Congress' pre-budget submissions for many years have called on the Government to limit the use of tax expenditures. We would endorse and or propose the following measures.

First, we would endorse the proposal to establish a dedicated tax expenditure evaluation unit within the Irish Government Economic and Evaluation Services (Roantree, B. (24 June 2021), Remarks at the Oireachtas Budgetary Oversight Committee).

Second, we would endorse the proposal made that the reviews of tax expenditures are published in advance of, instead of Budget Day, to allow for sufficient scrutiny (Roantree, 2021).

Third, we would endorse the proposal that the Oireachtas Budgetary Oversight Committee to select a theme each year and to review the merits of each existing tax expenditure measure under that scheme and that it review the case made in the budget and finance Bills, and in associated documentation, for the introduction of each new tax expenditure measure (Collins, M. (19 February 2019), Remarks to the Oireachtas Select Committee on Budgetary Oversight).

With regard to a thematic approach, Dr Collins suggested using the categories adopted by the 2008-2009 Commission on Taxation namely, children, housing, health, philanthropy, enterprise including farming, employment, savings and investments, and others, and he also suggested capital allowances 'given the resources involved'. The Department of Finance's 2019 Tax Strategy Group Paper 19-12 (para 45) appears to endorse this approach but subsequent Department of Finance Reports on Tax Expenditures do not appear to follow through on this; the October 2021 report merely refers to what it called Dr Collins' call for further scrutiny of tax expenditures, possibly on a themed basis.'

Fourth, we would propose that consideration be given to publishing forward-looking information in order to estimate the medium-term impact of on tax expenditures, both those in place and planned. The European Commission 2020 staff working document on the review of the suitability of the 2011 Directive highlighted Slovakia has the example of best practice in terms of publishing forward-looking information that benefits medium-term fiscal planning the most, as it covers the past impact of tax expenditures for two previous years and provides estimates for three future years.

Fifth, Congress' pre-budget submissions over recent years have recommended that all tax expenditures should have a sunset clause, of no longer than three years. We reiterate the recommendation.

3 Please give examples of taxation expenditures that you believe run counter to public policy/are badly designed?

Please specify::

Congress' pre-budget submissions over recent years have recommended reform of the system of taxation expenditures. We would highlight the following tax expenditures in particular that we believe run counter to public policy and/or are badly designed in response to this question.

(i) Capital Acquisitions Tax (CAT) business and agricultural relief.
Congress would refer to the emphasis placed on the reform of this tax expenditure by Kaloulidou and Roantree (2021). They point out that this relief reduces the taxable value of eligible assets by 90%, with no cap, and when combined with the lifetime allowance of €335,000, means that a business or agricultural property worth up to €3.35 million can be gifted or bequeathed by a parent without giving rise to any CAT liability. While the stated aim of this tax expenditure is to support succession within small family businesses and agricultural property, this relief primarily benefits those inheriting substantial businesses and farms. Revenue statistics show that in 2019 there were 648 claims for Business Relief at a cost of over €200 million and 1,413 claims for Agricultural Relief at a cost of almost €159 million – an average cost per claim of €309,000 and €112,000 respectively. They conclude that this 'suggests

that the primary beneficiaries – of Business Relief in particular – are not those inheriting or being gifted small family farms or businesses, but far more substantial ones.'

It should be recalled that the 2009 Commission on Taxation had recommended amalgamating both reliefs, reducing the rate to no more than 75 per cent and introducing a cap of €3 million on eligible assets. The ESRI report points out that while no estimate is available for what capping the relief would raise, Revenue (2020) estimates that reducing both reliefs to 70 per cent would raise €60 million (and €135 million if reduced to 50%).

(ii) Capital Gains Tax (CGT) relief under section 604A and CGT Entrepreneurial Relief.
We would also refer to the critique of both of these tax relief measures, which cost €113 million and €92 million respectively, outlined by Kakoulidou and Roantree (2021).

CGT relief under section 604A provides relief from CGT for property in the European Economic Area acquired between 7 December 2011 and 31 December 2014 under certain conditions. They point out that Revenue estimates that 632 taxpayers took advantage of this relief in 2028, the latest year for which data is available, at a cost of €113 million and say that it is likely that most investors have made substantial windfall gains in addition to any rental income they received from the asset.

Entrepreneur relief is a reduced CGT rate of 10% that applies to chargeable gains – up to a lifetime limit – on certain eligible assets, including assets owned by a trading company (or holding company of a trading group) of which the shareholder has been a full-time employee or director and who has owned at least five per cent of the shares for a continuous period of three years in the five years immediately prior to disposal. Revenue estimates that 875 taxpayers availed of the relief in 2018 (the latest year for which data is available) at a cost of €92.4 million, significantly more than the €27 million per year anticipated when the measure was introduced, and an average cost of more than €100,000 per claimant (Kakoulidou and Roantree, 2021).

(iii) Special Assignee Relief Programme (SARP).
Our pre-budget submissions over recent years have also advocated the abolition of the Special Assignee Relief Programme. Approximately 1,600 high-earners who relocate to Ireland to work with trans-national corporations availed of this relief in 2019, at a total cost of €38 million. It has been estimated that the average beneficiary of the relief had an income of over €300,000 in 2018, putting them in the top 0.5% of the earnings distribution (Collins, 2021).

(iv) Fossil-fuel tax expenditures
Fossil fuel and similar subsidies are estimated to amount to €4.1 billion between 2021 and 2016, according to the CSO ((June 2019) Fossil Fuel and Similar Subsidies). While broader social considerations do need to be taken into account with regard to some of these expenditures (e.g. the School Milk Scheme), Congress believes there is scope for fundamental reform of these expenditures. Furthermore, the revenues raised from reform should be hypothecated for just transition measures.

See further at Chapter 4 Q.2 re diesel fuel rebates.

(v) Help-to-buy scheme
Congress would refer to the critique of the Help-to-Buy scheme outlined by Kakoulidou and Roantree (2021). This was introduced as a temporary measure in 2016, with an estimated cost of €130 million over 2½ years. Over 23,000 claims had been made by the end of 2020, with an estimated cost of €370 million – almost three times the originally anticipated amount. More than half of claims were for properties valued at more than €300,000 – the median priced paid for a new-build home by first-time buyers in 2017 – and 40% had a loan-to-value of less than 85%. The Department of Finance estimates the cost of this scheme at €100 million annually. Kakoulidou and Roantree conclude that the scheme is 'poorly targeted towards its 'poorly targeted towards its stated aim of providing support to first-time buyers of newbuild homes in meeting their deposit requirement'. Congress believes there is scope for fundamental reform of this measure.

(vi) Reform of tax relief for private pensions
Congress would refer to the critique of tax expenditures relating to private pensions outlined by Kakoulidou and Roantree (2021).

First, we believe there is scope for fundamental reform in relation to the lump sum that can be drawn down from a private pension pot on retirement from the current amount of €200,000. Revenue last estimated the cost of this tax expenditure at €134 million in 2014. It is likely that the cost has increased in the intervening years. Kakoulidou and Roantree conclude that this tax expenditures is 'poorly targeted at lower to middle earners as it provides a much larger bonus for higher rate income tax payers in retirement than for basic-rate payers.

Second, we believe there is scope for fundamental reform in relation to the amount that can be contributed tax free to a private pension – the Standard Fund Threshold, which currently stands at €2 million, down from €5 million in 2005. This should be reduced further.

See further at Chapter 10 Q1 re tax relief on employees' pension contributions.

Please explain your rationale? :

See above.

4 Please provide examples of taxation expenditures that you believe work well, either in Ireland or internationally?

Please specify::

(i) Reinstatement of tax relief for trade unions subscriptions.
Our pre-budget submissions over recent years have recommended the reinstatement of the tax relief for membership subscriptions to trade unions that previously was in place between 2001 and 2010 inclusive. This measure cost €27 million at its peak in 2009.

Congress acknowledges that recommending the re-instatement of this measure runs counter to our overall position in favour of limiting tax expenditures. We would argue however that the re-instatement of this particular measure is justified by the positive impact of trade unions in limiting income inequality, as recognised by the World Bank (Betcherman, G (2012) Labour Market Institutions: A Review of the Literature. Policy Working Paper No. 6276. World Bank: Washing) and the IMF (Dabla-Norris et al (2015) Causes and Consequences of Income Inequality: A Global Perspective, IMF: Washington); by the positive impact of similar measures in other European countries such as Norway, Sweden and Finland, as documented by the OECD (OECD (2019) Negotiating Our Way up: Collective Bargaining in a Changing World of Work); by the commitments that Ireland has undertaken under the European Pillar of Social Rights; and on equity grounds given that tax relief is afforded for subscriptions to business representative and farming organisations.

Chapter 8 - Public Health

1 How well do the taxation and welfare systems support good public health outcomes, addressing health challenges including but not limited to those caused by or related to tobacco and alcohol use, obesity, poverty and/or environmental issues?

Please outline your views::

It is imperative that we ensure the taxation system is fully aligned with the agreed and overarching policy goal on full implementation of the Sláintecare report, in order to move progressively towards the establishment of a publicly-funded, universal, single-tier healthcare system, whereby care is provided on the basis of need rather than means.

It is the established view of Congress that all funding for this model should be provided through a system of progressive general taxation.

In addition, revenue raised from specific targeted taxes on activities with a known physical and mental health impact - sugar tax, online gambling, alcohol and tobacco consumption - must be utilised for health education/ awareness and also as part of a dedicated National Health Fund to ensure the full implementation of Sláintecare.

In addition, a shift to this model of healthcare would require a formal declaration that the State would move, over time, to cease funding and subventions for private healthcare provision, particularly through the taxation system.

This would of necessity mean the phased elimination over the short-to-medium term of tax reliefs for private healthcare insurance along with direct subventions to private, for-profit nursing homes, on the basis that all forms of care would be accessible to all on the basis of need, under a universal, single-tier health system.

2 What changes would you like to see to better promote the goal of good public health?

Please specify::

See above in respect of taxes on activities with direct impacts on physical and mental health.

In addition, the taxation system could also play a positive role in respect of recruitment and retention of staff, which is a key concern within the Irish health system and which has been significantly exacerbated by the growing affordability crisis in housing. As all key data and figures serve to confirm, housing affordability is a major problem here and Eurostat has estimated (2020) that housing costs in Ireland could be some 77% above the EU average, with both rental and purchase prices spiralling. In addition, the most recent figures confirm that this upward cost trend had spread beyond the major urban centres and into rural areas.

In that context, serious consideration should be given to utilising the tax system to help mitigate such costs and assist with recruitment and retention of key hospital staff.

Chapter 9 - Administration

1 How can modernisation of the taxation and/or welfare administrations evolve to best meet customer needs in a satisfactory manner while respecting data rights and ensuring secure and reliable tax collection?

Please outline your views::

(i) Real-time credit system
Congress is pleased that Revenue's real-time credit system now allows PAYE workers to claim back tax relief owed on certain expenses in real time. Rather than having to wait until the end of the year workers will benefit in their next pay packet.

We note plans for this facility to be available from Q2 2022 for expenses incurred working from home. Congress has been to the fore in highlighting the potential hardship caused by the time lag in e-relief being paid and when a utility bills falls due. We are pleased this will be addressed in the near future with the move to real-time reporting.

However, our concern with the heavy admin burden on remote workers remains outstanding, as reflected in the very low uptake of e-relief. In fact, under the Finance Act 2021, this burden has intensified. PAYE remote workers are now required to provide 'a copy of the statement issued by the service provider' when applying for e-relief. Up to now there was no requirement to offer evidence of expenses incurred when submitting a claim. Claimants only had to keep relevant receipts on file for six years in case Revenue sought to verify them. Meanwhile the self-employed are not required to submit supporting evidence to claim an expense.

This discriminatory treatment of and heavier admin burden on PAYE taxpayers must be rectified.

See further at Chapter 10 Q.1 re tax relief for employment expenses.

(ii) Integrate death notifications across public services
Congress recommends eliminating the unnecessary bureaucracy faced by bereaved families cancelling income supports and public services on the death of a relative.

During one of the most difficult life events for most people, they have to telephone, write or attend in-person each relevant section within each government department and public body to notify them of a death, often repeating the same information. Navigating this bureaucratic maze is complex, time consuming and risks causing upset when post arrives addressed to a long-dead love one.

Our process for death notifications is in stark contrast with the UK, where a free 'Tell Us Once' service, provided on behalf of the Department for Work and Pensions, allows a close relative to notify multiple central and local government services of a death at the same time. Everything, from a pension to a library card, is cancelled with a single phone call or online form.

Already within the Department of Social Protection when a next-of-kin registers a death with the General Register Office this information is shared across all sections to terminate income supports, and with the Department of Public Expenditure and Reform for information sharing with the public sector pension services, local authorities and relevant public bodies. But this is a fraud control measure and is not a one-stop-shop option available to bereaved families.

Closing this gap in public service delivery would mean so much to the families of the 32,000 people who die in Ireland each year.

What do you see as the implications of modernisation for taxpayers either positive or negative?:

See Q.1 above.

2 What improvements in service quality and delivery could be achieved by integrating (elements of) the taxation and welfare administrations?

Please specify::

In our submission to the Department of Social Protection consultation on the Total Contributions Approach, Congress called for a regular social insurance contribution statement to be issued to all adults to inform them of the future State Pension Contributory entitlement they can expect to receive based on their contribution record to date.

We are pleased that the Pensions Commission has heard and agreed with us on this, and we urge Government not to delay in acting on their recommendation to issue regular PRSI contributions statements.

Are there any risks arising from such integration? :

Chapter 10 - Submit Your Ideas

1 Taking into account the Terms of Reference, submit any other thoughts, ideas or feedback on taxation and welfare in Ireland:

Please outline your views::

(i) Standardising tax relief on employees' pension contributions.

Encouraging workers to save towards a financially secure retirement is a social good and an economic necessity. The State Pension is paid at a flat amount, rather than pay-related. Its policy objective is to keep pensioners out of poverty, not to maintain pre-retirement living standards. As a consequence, workers without a supplementary pension are exposed to a significant drop in their normal living standards in old age. Pension savings also reduce the risk of a fall in consumer demand. Over the coming decades, the importance of this income to the wider economy will grow as the ratio of worker to pensioner shrinks.

However, only half of all workers have an occupational or private pension to supplement their State Pension. Congress views the failure to achieve widespread coverage of supplementary pension provision to be rooted in the absence of a legal obligation on employers to contribute to an occupational pension. Compounding this, the pension system, including the application and value of tax incentives, is overly complex and is not sufficiently understood to encourage pension saving among low- and middle-income earners.

The current voluntary approach will end with the gradual introduction of auto-enrolment from 2023, which will compel employers to include non-pensioned staff into a retirement saving scheme and to make a mandatory minimum contribution. Congress agrees in principle with the move to auto-enrolment as another mechanism for increasing supplementary pension coverage, income adequacy for retirees, and employer responsibility to contribute to their employee's retirement savings.

Congress views auto-enrolment as an additional pension policy instrument, and not a replacement for the system of tax supports. In our submission to the Department of Social Protection's consultation on the design of the new scheme to be introduced, Congress called for the value of the State contribution to align the value of the current 40% tax relief arrangement.

As tax supports are provided at the marginal income tax rate of contributors, workers with annual earnings above €36,800 get relief at the 40% rate. In 2019 (pre-pandemic) the average wage for a full-time worker was €48,946. Any reduction in the rating of tax expenditure on employees' pensions would

adversely affect every worker earning more than three-quarters the average full-time wage, which would be a matter of grave concern for Congress.

See Chapter 7 Q.3 re. tax relief on pension lump-sums and the Standard Fund Threshold.

(ii) Tax relief for employment expenses

Congress has been unequivocal over the past two years that remote workers should not be left to carry the business operational cost of their employer when remote working.

While the Tax Strategy Group (TSG) acknowledges the potential shifting of overhead costs from employer to employees, the TSG, incorrectly, conclude these costs are "balanced however by potential savings associated with working from home such as reduced commuting costs." Employers do not compensate workers for their time and costs travelling to and being in the office, they have no right to make a claim on any savings to meet their operational costs.

The TSG note specific tax relief for remote working raises equity concerns between workers who have the capacity or option to work remotely and those that don't.

To address this inequity, Congress recommends a tax credit for all PAYE and self-employed workers in respect of employment related expenses.