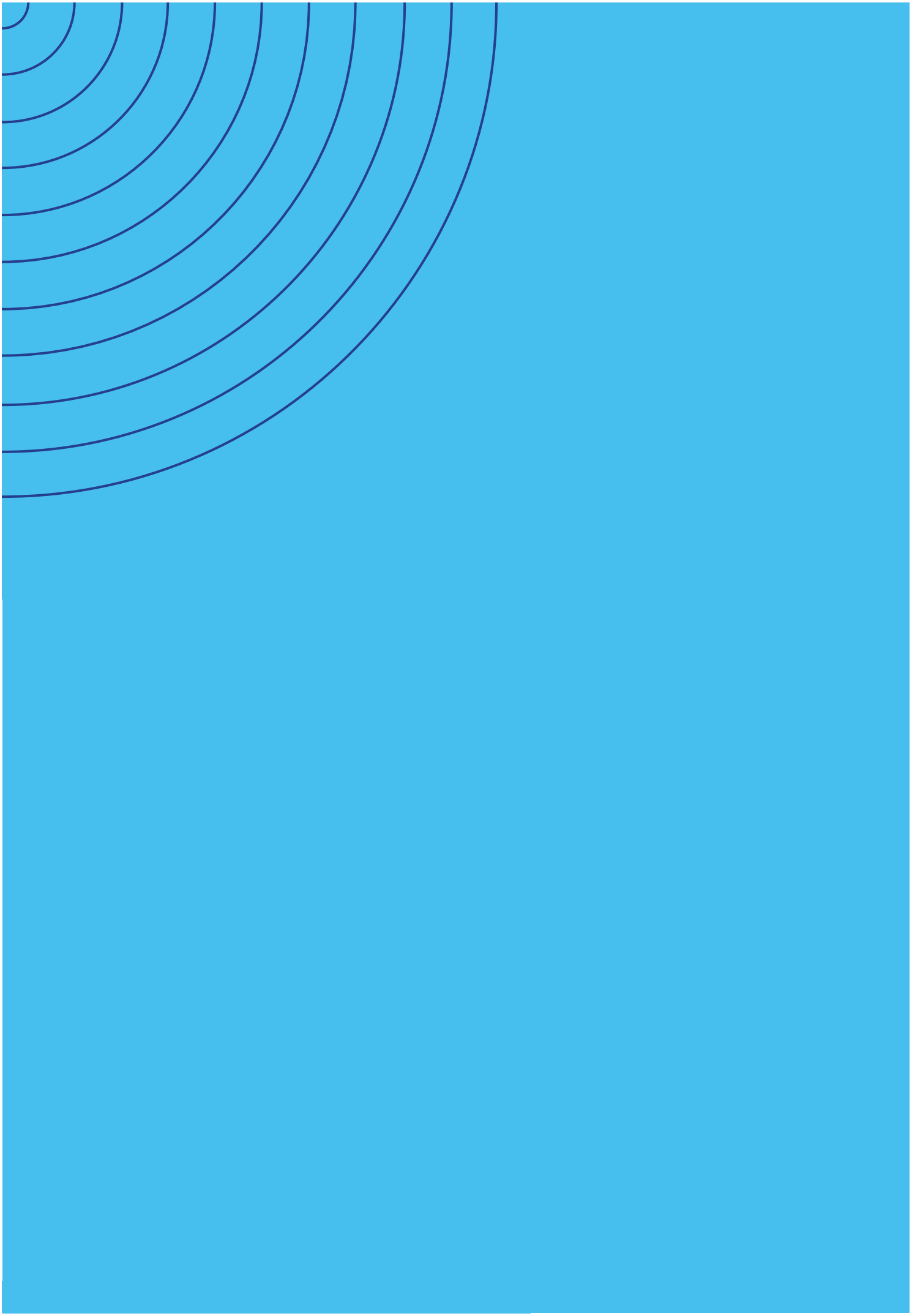
Commission on Taxation & Welfare

An Coimisiún um Chánachas agus Leas

Your Vision, Our Future

The public consultation of the Commission on Taxation and Welfare

Rialtas na hÉireann
Government of Ireland



Foreword

I am delighted to present this document which is intended to support the public consultation for the work of the Commission on Taxation and Welfare. The independent Commission on Taxation and Welfare was established at an inflection point in recent Irish history. The nation is emerging from the Covid crisis, facing burgeoning challenges, and has been shaped by some three decades of economic upheaval and transformation.

In the past three decades, Ireland, economically, is a country transformed. In the thirty years from 1989, when the post-war global order came to an end, to 2019, on the eve of Brexit and the global pandemic, the pace of growth and structural change in the Irish economy has been remarkable.

The terms of reference for this Commission were set by Government earlier this year and ask the Commission to "review how best the taxation and welfare system can support economic activity and income redistribution, whilst promoting increased employment and prosperity in a resilient, inclusive and sustainable way and ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term."

In order to fulfil this significant challenge the Commission is conscious of the need for perspective, constructive challenge and external expertise. The Commission, as one, agreed that in-depth public consultation and stakeholder engagement exercises were necessary to elicit broad perspectives about the way in which Ireland's tax and welfare systems should be structured to better position the country to respond to developments over the next few decades and address any perceived short-comings in the systems as they operate today. Hence, I present to you Your Vision, Our Future and ask you to go cotw.citizenspace.com to make your views known. These responses will be critical to assist the Commission in its important work in the months ahead.

Professor Niamh Moloney
Chair of Commission on Taxation and Welfare

Terms of Reference for the Commission on Taxation and Welfare

As set out in the Programme for Government, the Commission of Taxation and Welfare is being established to independently consider how best the taxation and welfare systems can support economic activity and promote increased employment and prosperity, while ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term.

The Commission's work will have regard to the principles of taxation and welfare policy outlined within the Programme for Government, including the Government's commitment to a pro-enterprise policy framework and to providing a stable and sustainable regulatory and tax environment. It will also take account of relevant issues such as the impact of the COVID-19 Emergency, ageing demographics, digital disruption and automation and the long term strategic commitments of Government regarding health, housing, and climate.

Towards this end the Commission is asked to:

- review how best the taxation and welfare system can support economic activity and income redistribution, whilst promoting increased employment and prosperity in a resilient inclusive and sustainable way and ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term.
- examine what changes, if any, should be made to the social insurance system, including structure and benefits coverage, while ensuring sustainability. This will include consideration of the NESC report no 151 (November 2020) on the future of the Irish social welfare system and output from the Pensions Commission Pensions Commission regarding sustainability and eligibility issues in respect of State Pension arrangements. It will also include examination of how welfare policy can work in tandem with the taxation system to support economic activity, and while continuing to support those most vulnerable in our society in a fair and equitable way, having regard in particular to experience gained during the COVID-19 Emergency.
- examine how the taxation system can be used to help Ireland move to a low carbon economy as part of the process of meeting its climate change commitments as set out in the Climate Action and Low Carbon Development (Amendment) Bill 2021. This will include ensuring the sustainability of environmental tax revenue resulting from decarbonisation of the economy.
- consider the appropriate role for the taxation and welfare system, to include an examination of the merits of a Site Value Tax, in achieving housing policy objectives. This consideration should include reviewing the sustainability of such a role. It should also have regard to the experience of previous interventions in the housing and construction market and the current significant State supports for housing provision.
- consider how Ireland can maintain a clear, sustainable, and stable taxation policy as regards Ireland's attractiveness to Foreign Direct Investment in a changing global taxation environment, including retention of the 12.5% corporation tax rate.
- review how best the taxation environment for SMEs and entrepreneurs can ensure that Ireland remains an attractive place to sustain and grow an existing business or to start and scale up a new business.
- review the adaptability of the taxation and welfare systems to the rise of digital disruption and automation and other technological changes.
- examine the process for reviewing taxation measures and expenditures in order to ensure it is aligned with best practice and where appropriate make recommendations as to how it can be improved.
- examine how effectively good public health is promoted in Ireland, and present relevant reforms to advance and incentivise this goal
- consider taxation practices in other similar sized open economies in the OECD to see what lessons Ireland can learn from such countries. This will include consideration of how the tax administration system should be modernised, building on real time payroll reporting which underpinned the existing modernisation of the PAYE system, and ensuring that the tax administration system meets best international standards. This will also include consideration of the potential for improvements in simplicity and administrative efficiency from integrating the taxation and welfare systems, as well as options for reform on the balance between the taxation of earned income, consumption, and wealth

Introduction

Modern states could not exist without tax systems which raise revenue to pay for public services. Tax Policy is developed by the Department of Finance and implemented by the Office of the Revenue Commissioners.

Taxation receipts are the single most important revenue stream for the State. Most States raise in excess of 30% of national income in tax. As a share of national income, the Irish tax burden is close to the EU-28 average of 40% at 37.9% using modified Gross National Income (GNI*) as a benchmark.

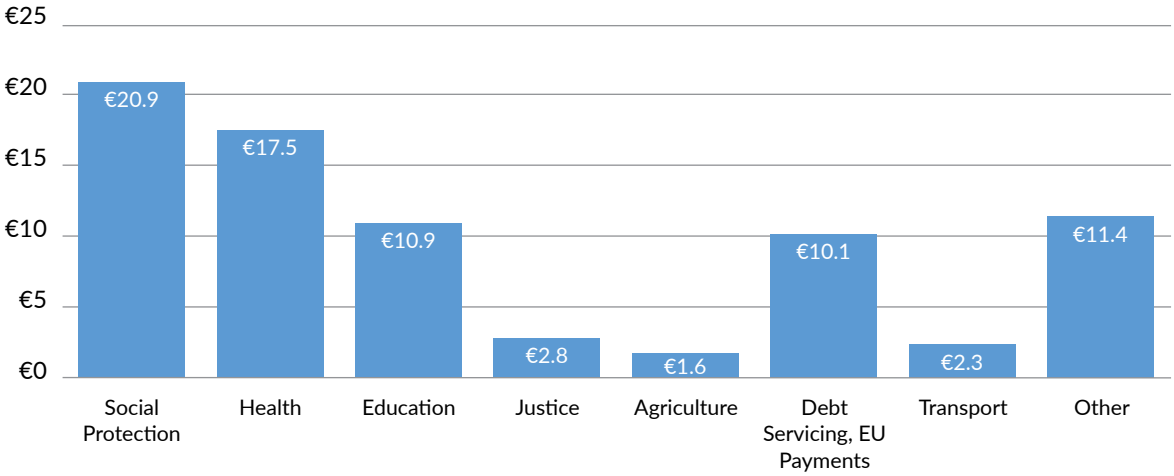
In 2019, the total amount of taxes and charges collected in Ireland was c.€73.4 billion , a breakdown of which is outlined in the table below.

A significant quotient of the tax and pay related social insurance (PRSI) take is disbursed on social welfare measures by the Department of Social Protection, whose mission it is to promote active participation and inclusion in society through the provision of income supports, labour market participation services and other services. Figures 1 and 2 below show firstly, the totality of Government expenditure, €77.5 billion in 2019 broken down across sectoral areas and secondly, gives further detail on social welfare spending, which at €20.89 billion represents the highest proportion of that total.

Table 1:

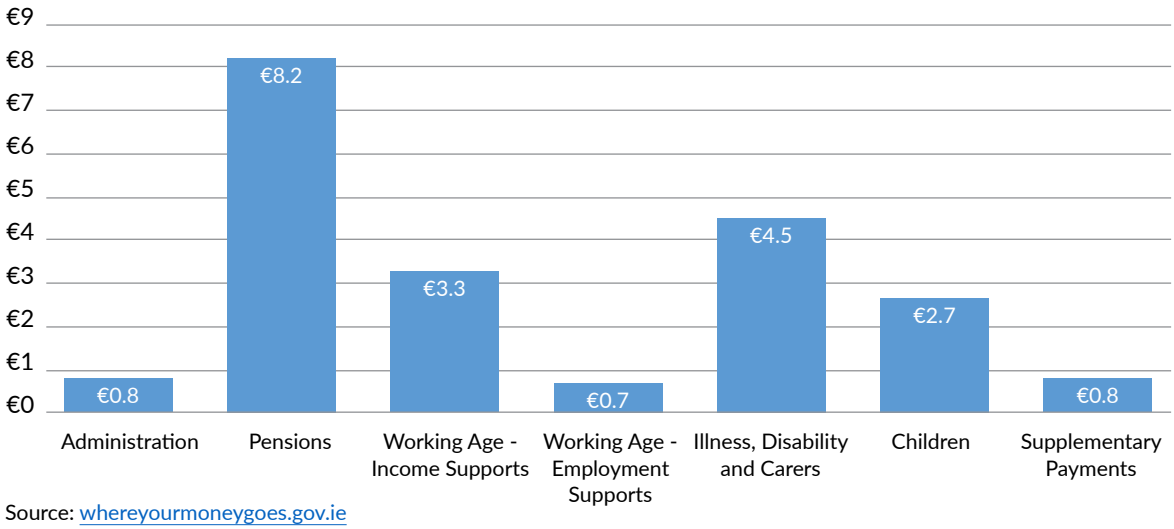
Tax /charge	Funding Source	Amount collected (€bn)	Percentage of total
Income tax (including USC)	Exchequer	22.9	31.2%
Of Which:			
PAYE		15.8	
Universal Social Charge (USC)		3.8	
Schedule D (self-assessed income)		1.9	
Valued Added Tax	Exchequer	15.1	20.6%
PRSI	Social Insurance Fund	12.2	16.7%
Of Which:			
Employer Contributions		7.9	
Employee Contributions		3.0	
Self-Employed Contributions		0.6	
Corporation Tax	Exchequer	10.9	14.8%
Excise Duty	Exchequer	5.9	8.1%
Of Which:			
Fuel		2.6	
Alcohol		1.2	
Tobacco		1.1	
Stamps	Exchequer	1.5	2.1%
Commercial Rates	Local Authority	1.4	1.9%
Capital Gains Tax	Exchequer	1.1	1.5%
Motor Vehicle Duties	Exchequer	1.0	1.3%
Capital Acquisitions Tax	Exchequer	0.5	0.7%
Local Property Tax	Local Authority	0.5	0.6%
Customs	Exchequer	0.3	0.5%
Total Revenue		73.4	100.0%

Figure 1: Breakdown of 2019 Total Expenditure (€77.5bn)



Source: whereyourmoneygoes.gov.ie

Figure 2: Social Protection Expenditure (€20.9bn)



Source: whereyourmoneygoes.gov.ie

Together, the taxation and welfare systems have a crucial role to play in cushioning sudden income loss, supporting families with children and encouraging employment for people in all situations. Without well-designed, coherent and straightforward taxation and welfare systems, we will not be able to achieve a well-functioning labour market with optimal outcomes.

The tax and welfare systems make up some of the most significant and regular interactions between individuals and the State and define, in large part, the nature of the relationship between the State and the individual. The tax and welfare systems are accordingly at the crux of the relationship between the State and individual. They are part, but not the totality of, the wider social contract – the set of rights and mutual obligations that come with living in Ireland.

In order to maintain the provision of critical infrastructure and services into the future, it is essential that the cost of the provision of public services is matched with a sustainable level of tax revenues in the long run. Furthermore, potential shocks to the tax base could also impact future revenue streams. With Corporation tax now established as the fourth-largest tax revenue stream in the State (behind Income Tax, VAT and PRSI), the Department of Finance has highlighted how sudden reductions in receipts could severely impact public finances in the future. While Ireland has the capacity to absorb the fiscal impacts of Covid-19, the elevated debt burden will need to be managed in the coming years. Ireland has among the highest debt per capita ratios in the world and faces into many challenges such as an aging population and the carbon and digital transitions.

Current challenges

We are emerging from a pandemic the likes of which has not been seen in living memory. However, it is fundamental to this process that, rather than considering the taxation and welfare systems from an emergency perspective, we take a long term, strategic view of the taxation and welfare framework necessary for Ireland as we move past the Covid recovery and beyond, taking account of issues such as aging demographics, digital disruption and automation and the long term strategic commitments of Government regarding health, housing, and climate.

Our nearest neighbour, the United Kingdom, has drastically altered its relationship with the EU and accordingly with ourselves. In common with nations throughout the World, we are also in the grip of a climate emergency. Domestically, we continue to grapple with the dual challenges of housing and homelessness. As recently as a decade ago, business leaders and governments believed that global companies would soon dominate the world economy. Certain administrations responded by introducing new protectionist pressures. At the same time, demand for change to the way that multinational corporations are taxed is growing. Our population is aging rapidly, with attendant impacts on old age pensions and the cost of healthcare. The pandemic drew into focus existing challenges within our healthcare system. There will be challenges too, even in the aftermath of the pandemic - potential lingering health and economic impacts. Given the exponential pace of technological change over the past 30 years, it is likely further unprecedented change in this space is not far away - not just new job opportunities and digitilisation of roles in a number of sectors, but significant changes in how we connect, how we commute, the efficiency of how we get certain jobs done and the automation of others. Lastly, there are the unknowns; the risks and the uncertainties. To bolster Ireland against the complex tapestry of challenges described, our State must be well-funded with considered and responsive taxation and welfare systems in place.

Structure of Public Consultation

Even prior to the pandemic, we were living in an increasingly digital society. The advent of Covid-19 served to underline this. Therefore the public consultation is hosted online at cotw.citizenspace.com using technology that is user-friendly and intuitive. It contains specific questions based on the Terms of Reference of the Commission.

Following the public consultation, the Commission proposes to engage with stakeholders including representatives from community, voluntary and environmental groups as well as business, unions, research institutes and the academic community through the proposed Dialogue on the Future of Tax and Welfare in Ireland. This event is expected to take place in early 2022 and stakeholders will be notified of the opportunity to participate in a timely fashion. Check in on www.gov.ie/cotw for details.

Chapter 1

COTW Mission and General Questions

The mission of the Commission on Taxation and Welfare is to:

> "independently consider how best the taxation and welfare system can support economic activity, whilst promoting increased employment and prosperity while ensuring that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term."

Several questions pertain to this overarching theme.

Chapter 2

Fiscal Sustainability

Fiscal Sustainability concerns the ability of a Government to maintain public finances at a credible and serviceable position over the long term. The primary function of the tax system is to fund Government expenditure, at a level determined by the democratic system.

The Irish economy has been transformed over the past three decades, but has also experienced considerable volatility and two deep crises. While the fiscal position will improve as the Covid-19 Pandemic subsides, Ireland will still run a deficit of 1.3 per cent of GNI* (or €3.5 billion) in 2025 according to the Irish Fiscal Advisory Council, owing primarily to increased investment in critical infrastructure. The public finances will face structural challenges in the medium and long term. Of these, costs associated with demographic change is the most certain, with an aging population putting pressure on pension and health costs. However, costs associated with the climate and digital transitions will also need to be funded.

Although Ireland has the current capacity to absorb the increased short to medium term debt associated with the Covid-19 Pandemic, there are other risks on the horizon, which have been outlined above. As Ireland's public debt converges towards €250 billion by 2025 (official estimates) and with debt per capita amongst the highest in the developed world, efforts must be taken now to ensure sufficient and stable revenues to provide for future public services and to place debt on a downward trajectory.

To ensure that the public consultation covers every element of the charter as set out for it, the Members of the Commission have segmented the Terms of Reference into specific themes as follows;

Chapter 3

Facilitating Employment

The Government aims to target resources to the benefit of our people to reduce poverty and deprivation and to promote active inclusion by helping people access and sustain employment. Workers and employers in turn contribute via taxation, including through PRSI, which is then used to fund benefits etc.

Increasing employment involves supporting the economic activity of employers to facilitate job creation and to deliver high quality pay and conditions for workers. It involves successfully aiding those who are unemployed to find work or by facilitating those outside the labour force to join it.

The Commission on Taxation and Welfare has been tasked with considering what changes if any, should be made to the social insurance system including how welfare policy can work in tandem with the taxation system to support economic activity and encourage employment while supporting our most vulnerable.

Chapter 4

Climate

Climate change is already having diverse and wide ranging disruptive impacts on Ireland's environment, society, and economic and natural resources. The Climate Action Plan is Ireland's roadmap to becoming a climate resilient and carbon neutral economy and society by 2050. Achieving net-zero emissions by this time means that the amount of greenhouse gases released into the atmosphere must be dramatically reduced and balanced by the amount removed by our land, forestry, or technology. Becoming a climate resilient society will help us to cope with the impacts of a changing climate. Ireland is committed to achieving this carbon neutral future through a just transition, meaning all voices will be heard in a fair and equal manner and that no one will be left behind in this process/transition.

Government is in the process of finalising the 2021 Climate Action Plan. In parallel, the Commission on Taxation and Welfare has been asked to examine the role of the taxation system in supporting the green transition and reducing greenhouse grass emissions. Along with direct interventions, tax is considered an important instrument in pursing environmental goals and reducing greenhouse gas emissions. As well as providing a source of revenue, environmental taxes can be levied in such a way as to encourage a positive change in behaviour.

Chapter 5

Housing

The supply of housing in Ireland has fallen from an annual average of 60,200 house completions in the 2000s to 11,500 on average in the 2010s, rising to 20,676 in 2020. As set out in Housing for All, the government's vision for the housing system over the longer term is to achieve a steady supply of housing in the right locations with economic, social and environmental sustainability built into the system.

Housing affordability represents a key challenge in Ireland's housing market. Since 2013, nominal house prices and average rents have increased by 91% and 61% respectively, while average nominal weekly earnings have increased by only 16%.

The range of taxation measures in relation to housing are extensive. Tax is levied on many aspects of the housing market, including wealth taxes such as the local property tax (LPT) on home ownership and transactional taxes such as capital gains tax, stamp duty, capital acquisitions tax and value added tax on the transfer of property, including residential property. Income derived from renting property is liable to income tax or corporation tax. A number of tax reliefs and exemptions exist to reduce the tax burden on housing in certain circumstances.

Recent significant tax developments include amendments to the LPT and the commitment in Housing for All to introduce a new tax to activate vacant land for residential purposes.

The Commission has been asked to consider the role that the taxation should play, if any, in contributing to housing policy objectives in Ireland.

Chapter 6

Supporting Economic Activity

The Covid-19 pandemic has had an unprecedented impact on the economy, affecting employment and businesses across a wide range of sectors. A balanced economic recovery from the Covid-19 pandemic is important for businesses and people of working age alike.

SMEs account for 99.8% of all Irish enterprises and they are responsible for employing over two-thirds of Ireland's workforce across multiple sectors.

The contribution of Foreign Direct Investment (FDI) to the Irish economy is far reaching and it is estimated that foreign multinationals account for 32% of employment in 2020. It also contributes significant taxation revenue to the Exchequer, accounting for 44% of employment tax receipts from foreign multinationals in 2019 and 19% of CT receipts for the same year, generates other commercial activity across the economy and helps to drive investment in research and innovation.

The Commission is examining how best to attract Foreign Direct Investment into Ireland in a changing global taxation environment as well as how best to support small and medium sized enterprises (SMEs) and entrepreneurs to start, scale or grow a business while meeting emerging changes in social behaviour, business models and value drivers.

Chapter 7

Review of Tax Expenditures

A tax expenditure is a measure that is not a part of the essential structure of the tax system but has been introduced to achieve certain economic or social objectives. Currently taxation measures and taxation expenditures are reviewed in line with the guidance as set out in the 2014 Department of Finance Guidelines for Taxation Expenditure Evaluation.

International good practice requires that tax expenditures should be reviewed regularly, and that timely and accurate data should be available in relation to the efficiency, efficacy and cost of individual measures. Accordingly, the Commission is considering whether the process for reviewing tax expenditures currently in place in Ireland in order to ensure it is aligned with best practice and where appropriate make recommendations as to how it can be improved.

Chapter 8

Public Health

Public health is the science of protecting and improving the health of people and their communities. A healthy Ireland is one where everyone experiences good health and wellbeing, lives their lives to their full potential and where wellbeing is valued and supported at every age and level of society.

The public health implications of obesity are of growing concern in Ireland with rates of obesity and those overweight as a proportion of the population increasing. Rising obesity is driving increases in health issues such as cancer, high blood pressure and diabetes. Other issues including, but not limited to, alcohol-use, tobacco-use and the implications of poverty and climate change are also of concern.

The Commission has been tasked with examining how effectively the taxation and welfare systems promote good public health is promoted and consider relevant reforms to advance and incentivise this goal.

Chapter 9

Administration

People increasingly expect seamless integration of technology with their day to day activities, as more and more goods and services are only a few short clicks away. Similarly, it is increasingly expected that public services use emerging technologies to reduce costs, create efficiencies and improve the quality of services.

The tax and welfare systems, and their supporting administrative systems, need to continuously keep pace and adapt to technological developments. We have an opportunity now to reimagine elements of the tax and welfare administrations and consider how digital transformations in this space could streamline processes and generate efficiencies.

For that reason, the Commission is examining whether the taxation administration system can be further modernised to take advantage of recent technological advances and what improvements could be realised for the customer by integrating the taxation and welfare administrations, or parts thereof.

Chapter 10

Submit Your Ideas

Chapter 10 offers respondents the opportunity to submit any other thoughts, ideas or feedback on taxation and welfare in Ireland for consideration by the Commission.

Conclusion

This is a challenging time for Ireland. However it is important not to be consumed by the immediate and urgent but rather to take a strategic, long-term view of our shared future needs. Your opinion is vital to our work. Please make your voice heard: https://cotw.citizenspace.com

Members of the Commission on Taxation and Welfare

- Chair of the Commission, Professor Niamh Moloney, Head of the Department of Law at the London School of Economics and Political Science
- Marie Bradley, Managing Director, Bradley Tax Consulting
- Philip Brennan, former Assistant Secretary, Revenue Commissioners
- Sandra Clarke, former President of the Irish Tax Institute, Partner in BCC Accountants
- Rowena Dwyer, Manager of Policy, Planning and Government Relations with Enterprise Ireland
- Dr. William Hynes, Head of the New Approaches to Economic Challenges (NAEC) OECD
- Philip Kermode, former Director, European Commission
- Dr. Aoife Ní Lochlainn, Irish Environmental Network
- Rena Maycock, CEO and Founder of Cilter Technologies
- John-Mark McCafferty, Chief Executive Officer, Threshold
- Dr. Tom McDonnell, Nevin Economic Research Institute and ICTU Nominee
- Fergal O'Brien, Director, IBEC
- Dr. Barra Roantree, Economic and Social Research Institute
- Anne Vaughan, former Deputy Secretary, Department of Social Protection

cotw.citizenspace.com

Rialtas na hÉireann
Government of Ireland