



Executive Summary

INVESTING IN *RECOVERY, JOBS, EQUALITY*



TASC's Proposals for Budget 2011

Investing in Recovery, Jobs, Equality

Executive Summary of TASC's Proposals for Budget 2011

- TASC is proposing a set of evidence-based and costed measures for Budget 2011. These measures demonstrate that it is possible to reconcile solving the fiscal crisis with addressing the jobs crisis, while also balancing these aims with concern to increase economic equality in Ireland. While there are still difficult times ahead, the goals of recovery, jobs and equality are not in conflict. In fact, these goals can be complementary parts of a recovery strategy for Ireland based on targeted investment and gradual tax increases.
- TASC's budget proposals cover four inter-related areas and provide a strategy for recovery based on:
 - Restoring economic growth and returning people to employment through the creation of an Economic Recovery Fund;
 - Identifying new sources of revenue to allow Ireland to meet its stated commitment to the European Commission on fiscal consolidation measures in Budget 2011;
 - Outlining a multi-annual strategy for returning the public finances to a sustainable long-term path with savings in public expenditure that protect frontline services and levels of social transfers, and thus promote income equality;
 - Identifying specific reforms of the budgetary process to promote transparency and improve the level of public analysis about the optimum budgetary strategy for Ireland.
- The deficit (excluding banking costs) currently stands at almost €19 billion. TASC contends that fiscal consolidation measures should be taken in such a way as to minimise the impact on frontline services and minimise hardship for low income households. There are a number of core principles that inform TASC's budgetary recommendations:
 - All income regardless of source should be treated in the same manner for the purpose of taxation.

- All consolidation measures should seek to promote aggregate demand¹ or at least minimise damage to economic growth.
- All budgetary measures should be progressive, in the sense that those who can better afford to pay should pay more.

TASC's Proposed Adjustments for Budget 2011 (Fiscal Consolidation with Equality)²

Proposal	Yield (€ millions)	Cost (€ millions)
Tax Measures		
Tax Expenditures:	1,463	
Standard Rate all pension tax reliefs	750 ³	
Abolish legacy property reliefs on non-residential property	435	
Abolish capital gains tax and stamp duty relief for disposal of a site to a child	38	
Abolish payment of tax by means of donation of heritage items	5	
Abolish payment of tax by means of donation of heritage property to the Irish heritage trust	4	
Abolish income tax relief for expenditure on heritage buildings and gardens	6	
Abolish tax exemption for patent royalties	84	
Limit the business relief for CAT by reducing the level of discount on market value before tax is calculated from 90% to 75% and by introducing a €3 million ceiling on the qualifying amount	30	
Limit the agricultural relief for CAT by reducing the level of discount on market value before tax is calculated from 90% to 75% and by introducing a €3 million ceiling on the qualifying amount	100	
Abolish PRSI exemption for share options	18	
Abolish the income tax exemption for share-option schemes	3	
Introduce a ceiling of €75,000 on the artist's exemption	20 ⁴	

¹ Aggregate demand is the total demand for a country's output, including demands for consumption, investment, government purchases, and net exports.

² Unless otherwise indicated, all costings of tax measures shown are derived from the Commission on Taxation Report 2009 or from written answers to parliamentary questions.

³ This is a conservative estimate. The ESRI (2009) *Pension Policy: New Evidence on Key Issues* estimated that a saving of €1 billion could be made by standard rating pension tax reliefs. TASC has reduced this estimate to reflect the reduction in the numbers employed and in wages over the last two years. People who are unemployed or on reduced wages are less likely to be paying into a private pension and benefiting from pension tax reliefs.

⁴ Complete abolition of the artist's exemption is estimated to yield €66 million; as such €20 million is likely to be a conservative estimate of the yield.

Proposal	Yield (€ millions)	Cost (€ millions)
Property Tax:	839	
Introduce a 0.28% tax on residential property (assumes 25% deferral rate)	1,039	
Zero rating of residential stamp duty on residential property and abolition of the €200 levy on rented properties; second homes and holiday homes		200 ⁵
Social Security:	199	
Abolish the €75,000 ceiling on employee's PRSI	120	
Charge PRSI on share-based remuneration & Capital Gains	79	
Other tax measures:	197	
Increase Capital Gains Tax to 28%	48	
Increase Capital Acquisitions Tax to 28% and reduce all thresholds by 25%	60	
Apply the 4% health levy to rental and dividend income	89	
Expenditure Measures		
Savings:	300 est.	
Reduce all consultancy fees by 50%		
Reduce professional fees under GMS (General Medical Services)		
Make prescription of generic drugs mandatory where possible		
Make ex ante cost benefit analyses compulsory for major expenditure programmes		
Where feasible introduce centralised procurement by all State bodies		
Make competitive tendering mandatory for all major procurements		
Reduce support for fee paying schools		
Increase charges for private facilities in public hospitals		
Impose restrictions on travel and subsistence expenses		
Total	2,998	

⁵ Based on figures from obtained from Revenue and from the Department of the Environment.

TASC's Proposals [references are to paragraphs in the main document]

Economic Recovery Fund

1. TASC proposes the creation of a €3 billion Economic Recovery Fund which would be financed through the National Pension Reserve Fund (NPRF). [Para 1.11-1.12 and Section 2]

	€ million
1. Maintaining & Creating Jobs	
Loan Guarantee Scheme	500
Extension of PRSI exemption	36
'Short-time' working scheme	300
Venture capital/seed capital	250
Sub-total	1,086
2. Education and Training	
Expand places – education and training	600
BTEA + Grant (reversal)	50
Investment in Further and Third Level	214
Sub-total	864
3. Infrastructure Upgrades	
Fibre broadband upgrade	500
Changes to National Broadband scheme	100
Additional funding for school building programme	250
Sub-total	850
4. Research and Development	
Funding to support R&D in the alternative energy sector	200
Sub-total	200
TOTAL	3,000

- a. Prevent the further loss of jobs and failure of businesses.
 - i. Set up a loan guarantee scheme, accessible by small and medium enterprises (SMEs). Particular focus would go toward supporting those SMEs that are experiencing temporary liquidity problems as a result of the weakness in the economy and that would, under normal conditions, be considered to have viable business models. (cost €500 million) [Para 1.12 and 2.6]

- ii. Extend by one year the twelve month PRSI exemption for employing those who have been out of work for more than six months. (cost €36 million) [Para 2.6]
 - iii. Introduce a 'short-time' working scheme aimed at maintaining full-time employment and improving skills. This would involve the state providing financial support to companies for a limited term to retain their employees in temporary periods of low demand for their products or services. (cost €300 million) [Para 2.6]
- b. Encourage the starting-up of new enterprises and expansion of existing enterprises. This would be done through the provision of direct venture capital and/or seed capital for SMEs and high-potential start-ups. TASC proposes that all viable firms, regardless of sector, should be considered for funding. The Economic Recovery Fund should include a focus on sectors where Ireland has a comparative advantage or niche marketing opportunities. Examples include the renewable energy, agri-food, creative industries and tourism sectors. (cost €250 million) [Para 1.12 and 2.7]
- c. Address the structural problems in the labour force that have arisen following the collapse of employment in the economy. This would be done by providing increased resources for the retraining and up-skilling of the labour force.
 - i. Extend and expand measures aimed at supporting low-skilled unemployed people, who do not possess Level 5 National Framework of Qualification (NFQ) qualifications (Leaving Certificate equivalent), into modular training and education courses at Levels 4 and 5 in order to increase their progression and employment options. The Labour Market Activation Fund should be extended. Investment should also be used to increase the number of education and training places across the education and training system (NFQ Levels 6-10), including VECs, Institutes of Technology and Universities. (cost €600 million) [Para 1.12 and 2.8]
 - ii. Reverse the decision in Budget 2010 preventing students from claiming the Back to Education Allowance and the Third Level Maintenance Grant. (cost €50 million) [Para 1.12 and 2.8]

- iii. Implement the recommendations relating to the provision of education and skills in the Comhar Report (2010) on *Skills and Training for a Green New Deal* and the Forfás Report (2010) on *Growing Enterprise for Ireland*. Many of these recommendations relate to the expansion/re-orientation of existing courses, development of new courses and key competencies needed to re-build and transform the productive base of the economy in the short and medium term. (cost €214 million) [Para 1.12 and 2.8]
- d. Support job creation and develop strategic physical infrastructure that will enable Ireland to compete for jobs in the globalised economy of the 21st century.
 - i. Adopt a much stronger role in implementing effective policies and actions that facilitate a more rapid rollout of next generation high-speed broadband services. Immediate action should be taken by further investment in the various broadband programmes – such as the National Broadband Scheme. The Government could also subsidise the primary existing broadband network in return for equity or control of part of the network. (cost €500 million) [Para 1.12 and 2.9]
 - ii. Examine policy initiatives in other jurisdictions and combine effective policies with sufficient investment to deliver next generation broadband infrastructure in the short term. (cost € 100 million) [Para 1.12 and 2.9]
 - iii. Prioritise and accelerate other physical infrastructural projects, such as the School Building Programme, through the Economic Recovery Fund (cost €250 million) [Para 1.12 and 2.10]
- e. Support research and development in the alternative energy sector (cost €200 million) [Para 1.12 and 2.11]

Analysis of Government Expenditure and Taxation

- 2. TASC contends that to achieve fiscal consolidation the Government must conduct a full cost-benefit analysis of all major existing and proposed public spending and taxation measures, on a multi-annual basis, from an efficiency and equality perspective. (Cost-neutral in 2011). [Para 1.20-1.22 and Section 3.4]

- a. Gradually move away from Ireland's unsustainable low tax model toward average levels of taxation for a Western European country [Para 3.4.6]
 - b. Abolish all regressive tax expenditure unless it can be established that the measure would be more efficient than direct expenditure. [Para 1.22 and 3.4.6]
 - c. Introduce a comprehensive asset tax, of which residential property tax is an initial component [Para 1.22 and 3.4.6]
 - d. Introduce a Financial Transactions Tax (Tobin Tax) and lobby for the introduction of such a tax at a European level. [Para 1.22 and 3.4.6]
 - e. Set carbon tax at a level that would fully internalise the negative externalities⁶ associated with carbon based pollution. [Para 1.22 and 3.4.6]
 - f. Increase social security contributions as part of the move toward European average levels of taxation. [Para 1.22 and 3.4.6]
 - g. Undertake an efficiency and equality audit of all public expenditure programmes to eliminate wastage and/or regressive effects wherever they exist. [Para 1.22 and 3.4.6]
 - h. If required, provide further injections of financing from the NPRF in future years to counteract the deflationary impacts of the last three austerity budgets. [Para 1.22]
3. Undertake a comprehensive analysis to identify the most appropriate timescale for achieving Stability & Growth Pact compliance. (Cost-neutral in 2011) [Para 1.20]

Proposals to Cut Tax Expenditure in 2011

4. Achieve fiscal consolidation in Budget 2011, through a series of changes to tax expenditure. [Para 1.13-1.17 and Section 3.1]
 - a. Standard rate tax reliefs given for retirement savings and use these funds to provide an increased universal State pension over a five-year period, from 2013,

⁶ An externality is a cost or benefit, not transmitted through prices, incurred by a party who did not agree to the action causing the cost or benefit. A benefit in this case is called a positive externality, while a cost is called a negative externality.

based on the assumption that the state pensions will not be cut in 2011 and are increased in line with inflation.⁷ (Yield €750 million) [Para 3.1.1]

- b. Abolish the exemption from Capital Gains Tax and stamp duty on disposal of site to a child. (Yield €38 million) [Para 3.1.2]
- c. Abolish the tax exemption for patent royalties. (Yield €84 million) [Para 3.1.3]
- d. Restrict the artist's exemption to the first €75,000 of the artist's earnings derived from his or her creative work, which should only apply to individuals who derive their income solely or predominantly from creative work. (Yield €20 million). [Para 3.1.4]
- e. Discontinue the PRSI exemption for share options and the exemption for approved share-option schemes. (Yield €21 million). [Para 3.1.5]
- f. Abolish payment of tax by means of donation of heritage items or donation of heritage property to the Irish heritage trust, and abolish income tax relief for expenditure on heritage buildings and gardens. (Yield €15 million). [Para 3.1.6]
- g. Limit the business relief for CAT and agricultural relief for CAT to reflect the findings of the Commission on Taxation. Specifically, the current level of discounts should be reduced from 90 per cent to 75 per cent and the reduction should be subject to an overall monetary limit of €3 million. (Yield €130 million). [Para 3.1.7]
- h. Halt further relief to holders of property-based tax incentives that have been discontinued or closed to new entrants. (Yield €435 million). [Para 3.1.8]

Tax Changes Proposed for 2011

- 5. Achieve fiscal consolidation in Budget 2011, through a series of changes to taxation. [Para 1.13-1.17 and Sections 3.1 and 3.3]
 - a. TASC proposes that an annual 0.28 per cent levy be imposed on all residential property with appropriate deferrals to prevent incidences of hardship. (Gross yield €1,384.7 million, 25% of which is likely to be deferred, for a net yield in 2011 of €1,039 million). [Para 3.19 and Section 3.3 (16)]

⁷ See TASC (2010) *Making Pensions Work for People* for a more detailed discussion of TASC's pension policy.

- b. As part of the introduction of this recurrent tax on residential, stamp duty on residential property should be zero-rated and the €200 levy on rented properties, second homes and holiday homes should be replaced with the residential property tax. (Cost €200 million). [Para 3.1.9 and Section 3.3 (17)]⁸
- c. Abolish the existing €75,000 ceiling on employees' PRSI. (Yield €120 million). [Para 3.1.10]
- d. PRSI should be charged on share-based remuneration and capital gains. (Yield €79 million). [Para 3.1.11]
- e. Increase the rate of Capital Gains Tax (CGT) from 25 to 28 per cent (Yield €48 million). [Para 3.1.12]
- f. Increase the rate of Capital Acquisitions Tax (CAT) from 25 per cent to 28 per cent and reduce all thresholds by 25 per cent. (Yield €60 million). [Para 3.1.13]
- g. Apply the 4 per cent health levy to rental and dividend income. (Yield €89 million). [Para 3.1.14]

Efficiency Savings in 2011

- 6. Achieve fiscal consolidation in Budget 2011, through savings in current expenditure. (Yield €300 million). [Para 1.13-1.17 and Para 3.1.15]

Increase Budget Transparency and Improve Budget Documentation

- 7. Reform the budgetary process through increasing transparency. (Cost-neutral) [Para 1.23 and Section 3.5]
 - a. Provide Budget documentation and supporting material in easily accessible formats, appropriate to the needs of different sectors. [Para 1.32 and 3.5.2]
 - b. Make all data relating to the Budget available in raw form so that analysis can be conducted. [Para 1.33 and 3.5.2-3.5.4]
 - c. Compile a single database of all state assets and liabilities, and make it publicly available. [Para 1.34 and 3.5.4]

⁸ The net yield of €1,039 million in 2011 from the residential property tax, minus the €200 million cost of zero-rating residential stamp duty and abolishing the second home charge, gives a total yield of €839 million in 2011 from these proposals.

- d. Allow written Parliamentary Questions over the summer recess period when these are related to preparation of Budget proposals. [Para 1.35]
- e. Publish an annual Equality Statement, showing the distributional impact of all Budget measures. [Para 1.24 and 3.5.5]

Comprehensive Reform of Tax Expenditure Beyond 2011

- 8. Reform the use of tax expenditure. (Likely to yield significant revenue in future years)
 - a. Review the tax system, expanding the work of the recent Commission on Taxation, to detail the baseline or benchmark tax system in Ireland, against which tax reliefs, credits, etc. can be identified as tax expenditure, including concessions to narrow interests and measures that contain elements of tax expenditure alongside other characteristics. [Para 1.27 and 3.2.8-3.2.9]
 - b. Adopt a more comprehensive definition of tax expenditure, supplementing the basic OECD definition. [Para 1.28 and 3.2.3-3.2.7]
 - c. Set strict parameters to control the overall cost of tax expenditure. [Para 1.29 and 3.2.12]
 - d. Subject all new and existing tax expenditure (using the new definition) to economic efficiency auditing, and compare against a range of alternative options, including direct expenditure. [Para 1.30 and 3.2.20-3.2.23]
 - e. Subject all new and existing tax expenditure (using the new definition) to equality auditing, to minimise inequitable and regressive effects. [Para 1.31 and 3.2.24-3.2.26]
 - f. Make the requirement of a cost-benefit analysis of all new items of tax expenditure a permanent feature of all future Finance Acts. [Para 1.25 and 3.2.11]
 - g. Publish the Departmental reports on tax expenditure and the Department of Finance analysis of these. [Para 1.25 and 3.2.10]
 - h. Introduce an annual report on all tax expenditure as part of the Budget documentation, including *inter alia* their rationale, costs, predicted benefits, likely beneficiaries and indicators used to measure their success/failure. [Para 1.26 and 3.2.13-3.2.14]

Conclusion

- TASC's proposals for taxation changes and increases are designed to have minimum negative impact on economic growth. Potential deflationary effects from the total tax measures should be more than compensated for by the investment measures. The overall effect of TASC's budget proposals is estimated to be growth-friendly, while simultaneously narrowing the gap in the public finances.
- TASC's proposals show that it is possible to reduce the deficit, with minimum cuts to frontline services or to social welfare payments, while minimising the deflationary impact on the economy.
- The measures proposed by TASC are not exhaustive. Nonetheless, they represent a series of identifiable and costed measures which clearly illustrate that fiscal consolidation can be achieved in a progressive and equality-centred manner which supports economic recovery by minimising the impact on aggregate demand. A progressive Budget is possible that combines economic growth with job growth, while protecting the most vulnerable.