



Response to Budget 2011

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Summary of TASC Response

- TASC is an independent think-tank dedicated to combating Ireland's high level of economic inequality and ensuring that public policy has equality at its core. The primary focus of TASC's current work is to identify solutions to the present economic crisis aimed at achieving recovery with equality. This document aims to give an overview of Budget 2011 and its impact on economic inequality; and on our prospects for economic recovery, which itself will affect the degree to which we can narrow the equality gap.
- Budget 2011 is the fourth austerity budget in three years – with this budget representing a move towards extreme austerity by front-loading €6 billion of a €15 billion adjustment on a fragile economy over the next four years, having already taken €14.5 billion out the economy. The previous budgets have had a disproportionate impact on low income and vulnerable groups and they have failed to address the deficit, the jobs crisis or to stimulate growth in the economy. This budget represents more of the same failed policy choices and it will fail in its own terms.
- It is TASC's position that the current fiscal trajectory is unsustainable and, in the balance of probability, the Government will eventually have no choice but to restructure the national debt. TASC argues that the underlying growth assumptions set out in Budget 2011 (and therefore revenue projections and public spending projections) are too optimistic. As a result, the exchequer borrowing requirements and the burden of servicing the national debt will thus be greater than anticipated in the budgetary documentation. The General Government Deficit will not be brought to a sustainable level by 2015.
- Budget 2011 sees a further reduction of €1.75 billion (27 per cent) in capital spending. Infrastructure is essential for competitiveness and economic growth – and reduced investment will hamper recovery at a time when the productive base needs to be transformed to enable Ireland to compete in an increasingly globalised economy. Capital spending also supports much needed employment in the construction and related areas.
- Current spending has been cut by €2.2 billion in Budget 2011. Three-quarters of the spending cuts are concentrated in the areas of Social Protection, Health and Education, which will result in cuts to social transfers and public services. These cuts will impact disproportionately on low income and other vulnerable groups by reducing their disposable income, driving more people into poverty and exacerbating inequality.
- TASC agrees that the overall tax take has to be increased and, while some of the measures are progressive, on balance the proposed tax changes are regressive and will have a major impact on low paid workers. TASC's analysis shows that a combination of the new Universal Social Charge, reductions in tax credits and widening of the tax bands will result in a disproportionate fall in the incomes of low paid workers when compared to middle and higher earners. And the self-employed on high incomes (over €200,000) will pay less tax and social insurance, which illustrates the growth in inequality after Budget 2011.
- The structure of the tax changes also places too much emphasis on increasing income tax, which is proven to have a more negative impact on economic activity than taxes on property and other assets. TASC's proposals include the introduction of a residential property tax that could yield €850 million. The reform of tax expenditures could have been accelerated to a much greater degree and TASC estimates that at least €1.46 billion in revenue could be raised from this source. Broadening the tax base in this way would have been much more progressive than the taxation choices set out in Budget 2011.
- The existence of a four-year plan was an improvement on this year's Budget documentation, and should be repeated every year. However, TASC identifies a number of weaknesses in the transparency of information and documentation surrounding the Budget, not least the need

to show distribution of income and wealth, and to show the distributional impact of all Budget measures on equality.

Macroeconomics

1. It is TASC's position that the current fiscal trajectory is unsustainable and, in the balance of probability, the Government will eventually have no choice but to restructure the national debt.
2. The Department of Finance (Economic and Fiscal Outlook, 2010) is forecasting that GDP will increase by 1.7 per cent in 2011 and by an average of 3 per cent per annum over the period 2012-2014. These growth numbers are predicated on exports increasing by an average of 4.6 per cent per annum at a time when our major trade partners are forecast to experience growth rates of less than half that amount (EU Commission, November 2010).
3. The Department of Finance estimates that the €6 billion consolidation, equivalent to 3.81 per cent of GDP, will impact on the GDP growth rate by approximately 1.75 percentage points. This implies that the Department is working with a consolidation impact of -0.46 GDP growth for every percentage point of consolidation. Based on this we have an imputed underlying growth projection of 3.45 per cent. If we assume the Department is using the same consolidation impact for 2012 to 2014 we get the following underlying growth assumptions.

Department of Finance Underlying Growth Assumptions

	2011	2012	2013	2014
Post Consolidation GDP Growth (Dept of Finance)	1.7	3.2	3.0	2.8
Fiscal Adjustment as % of GDP	3.8	2.2	1.8	1.6
Imputed pre-consolidation GDP Growth	3.45	4.21	3.83	3.54

4. TASC argues that the underlying growth assumptions for Ireland are overly optimistic in light of the EU Commission's most recent forecasts of less than 2 per cent GDP growth in the Euro area (2011 and 2012) and just over 2 per cent GDP growth for advanced economies. Given the massive debt overhang, the uncertainty in the banking sector and absence of credit that will continue to constrain the domestic economy, it is unclear on what grounds Ireland is expected to outperform other advanced economies.
5. TASC argues that the Department of Finance's estimate of the impact of the consolidation is also too optimistic. The IMF (Fiscal Monitor, November 2010) estimates that a budget cut equal to 1 per cent of GDP typically reduces demand by 1 per cent and raises the unemployment rate by 0.3 percentage points. At the same time, an expansion in net exports

usually occurs, and this limits the impact on GDP to a decline of 0.5 percent. This is broadly in line with the Department of Finance estimate. However, a further finding by the IMF is that when interest rates are stuck at zero (or close to zero, as they are in Ireland) the output cost of fiscal consolidation (1 per cent of GDP) doubles, to 1 per cent of GDP after two years. This is because the Irish central bank is almost powerless to use monetary policy to stimulate domestic demand. The implication for Ireland is that, without the space for new interest rate cuts, we can expect the consolidation impacts to be more severe than normal. In addition, the IMF note that “when countries cannot rely on the exchange rate channel to stimulate net exports, as in the case of the global consolidation, and cannot ease monetary policy to stimulate domestic demand, due to the zero interest rate floor, the output costs of fiscal consolidation are much larger”. In other words, without the ability to devalue the currency, the impact of the fiscal consolidation will be much worse. TASC concludes that the Department’s consolidation impacts are likely to be too low, and consequently their growth projections are too high.

6. If the Department of Finance’s growth projections are indeed too optimistic, then we can infer that their revenue projections and public spending projections are also likely to be too optimistic. If so, the exchequer borrowing requirements (i.e. the deficit) and the burden of servicing the national debt, as a proportion of GDP, would consequently be greater than as set out in the Government’s economic and fiscal outlook. The implication is that the General Government Deficit will not be reduced to below 3 per cent of GDP by end-2014.¹
7. The Department of Finance estimates that annual interest expenditure will reach 5.5 per cent of GDP by 2014 (€10.1 billion). To put this into context, the entire education budget will be €9.2 billion next year. This figure of €10.1 billion assumes that the Government’s growth figures come to pass.
8. The EU Commission estimate of 0.9 per cent GDP growth in 2011 may itself be too optimistic and other analysts – for example Capital Economics – are forecasting negative growth (European Economics Update: Ireland Budget, December 2010). If either of these scenarios comes to pass, then sovereign default must be considered probable. TASC’s own forecast is for GDP growth of approximately 1.0 per cent for 2011, based on our assessment of the underlying economic conditions, the IMF estimated impacts of fiscal consolidation, and the composition of tax and cuts in the Budget. If lower growth than that projected by the Department of Finance occurs, the general government deficit will still be greater than the nominal growth level in 2014, and the debt ratio will still be moving in an unsustainable direction.
9. TASC notes the recent Oireachtas report that calls for much greater use of macroeconomic modelling and major improvements in data.² TASC concurs with many of this report’s recommendations. Although the current focus is on dealing with the current crisis, there is also a need to make fundamental reforms to ensure the state’s ability to manage the economy and deal with future crises is improved.

¹ End-2014 is the date used in the Budget documentation. The IMF/EU loan deal extends this to end-2015.

² Joint Committee on Finance and the Public Service, Report on Macroeconomic Policy and Effective Fiscal and Economic Governance, November 2011.

Capital Spending

10. The capital programme of €4.65 billion for 2011 represents a cut of €1.75 billion. Spending will continue to focus on infrastructure projects. The NPRF will also invest in Irish infrastructure assets on a commercial basis in partnership with third party institutional investors; however, investment from this source has not been quantified for 2011.

Table 1. Cuts to Capital and Current Spending

	2010 Budget (€ bn) ³	2011 Budget (€ bn)	Reduction
Gross Voted Capital Expenditure	6.4	4.65	27%

11. Capital investment is an essential part of economic development and it also stimulates activity in the economy and represents an important source of growth and job creation. TASC Budget Proposals for 2011 included the provision of an Economic Recovery Fund, incorporating infrastructural investment. While our options for investment have diminished in the wake of the EU/IMF loan deal, there is still scope for a remaining part of the NPRF (e.g. the €4.2 billion which remains in its Discretionary Portfolio, post the EU/IMF loan deal) to be used as a stimulus package.⁴

Potential Areas for Economic Growth

12. Given the scale of the economic crisis, measures in the Budget to stimulate economic activity are completely inadequate to address the scale of the problems in the economy and the jobs crisis.
13. The National Recovery Plan outlines the strategy for competitiveness, growth and employment. To a large degree the strategy restates existing Government policy and does not outline any additional measures to stimulate growth and address the jobs crisis.
14. Budget 2011 includes a number of changes to taxation measures aimed at stimulating certain sectors of the economy. Tourism is being supported through the reduction in the air travel tax from €10 to €3 on a temporary basis in an attempt to increase visitor numbers. The car 'scrappage scheme' is also going to be extended for a further six months, along with the extension of VRT relief for fuel efficient cars.
15. The retail motor industry is a particularly poor choice of industry to stimulate as it is almost entirely based on selling imports and the multiplier effect for this industry is likely to be very low. A more effective use of stimulus would involve targeting additional investment in areas that will create jobs and which minimises import leakage; for example, upgrading our broadband infrastructure, building schools, healthcare facilities and regeneration in deprived areas. TASC identified a range of areas for strategic investment as part of the Economic Recovery Fund outlined in our budget proposals.

³ Figures are from Department of Finance (2010) *Revised Book of Estimates*

⁴ Figures from correspondence with the NPRF, 3 December 2010.

Current Spending

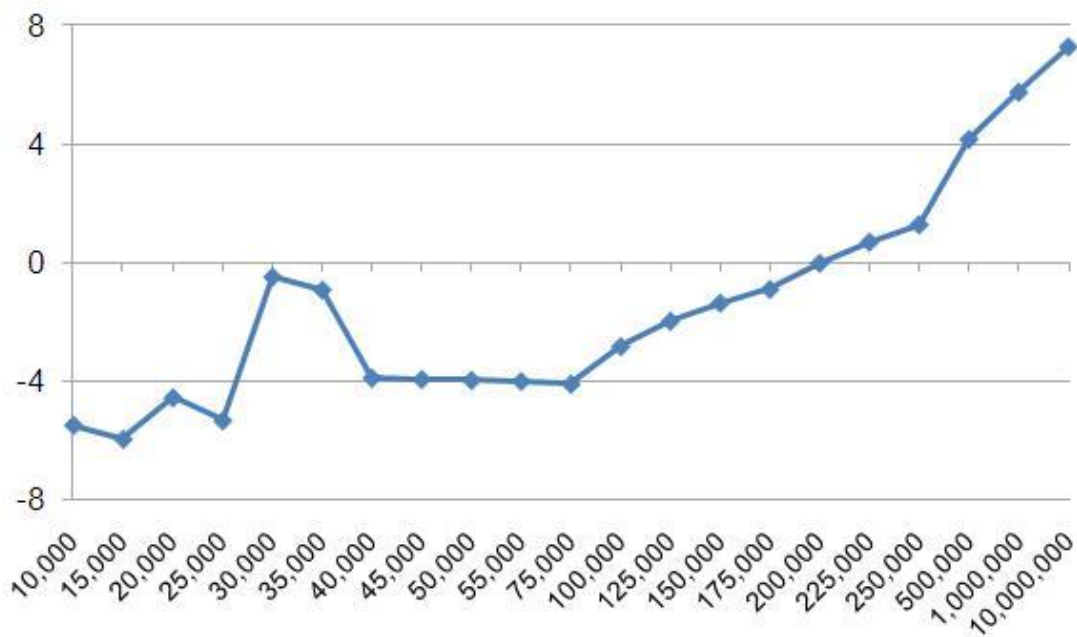
16. TASC's objective is to bring about economic equality in Ireland; that is, there should be a more equal distribution of society's resources as part of a well-regulated social market economy. Economic equality can be measured as the combined effect of wealth, income, costs and public services on a person's total net 'benefit' from the economy.
17. Budget 2011 affects all four dimensions of economic equality, but some of the Budget's implications are not immediately obvious. For example, while the Budget makes immediate changes to tax and social welfare, changing people's incomes, it also sets the available resources for different Government Departments. It will only be as 2011 progresses that people will see the erosion of local services, such as libraries, roads, public transport, as well as a reduction in the resources available to community groups, etc. These cuts to public spending will impinge upon economic equality, with those on the lowest incomes again most badly affected, because they are more reliant on public services.
18. According to the *Summary of 2011 Budget Measures* (page B.14) gross savings of €2.2 billion will be achieved in 2011. Three-quarters (€1.8 billion) of these savings will come from the Department of Social Protection (€873 million), the Department of Health and Children (€746 million) and the Department of Education and Skills (€170 million), with the remainder of savings coming from a combination of the other government departments. These are the three biggest spending government departments and they are the main providers of public services and social transfers, which are key components of economic equality. The cumulative effects of the cutbacks coupled with the regressive nature of the tax changes (see below) will have a disproportionate impact on low income and vulnerable groups, which will lead to higher levels of poverty and economic inequality.⁵ Reducing people's disposable income will also reduce aggregate demand in the economy and will place further pressure on businesses and jobs in the local economy.
19. TASC welcomes the fact that a number of employment and labour market initiatives have been expanded or extended, including the extension of the Employer Job (PRSI) Incentive Scheme and the creation of 15,000 additional labour market activation places. However, these measures fall far short of addressing the jobs crisis and the fact that over 400,000 people are on the live register. Budget 2011 is completely devoid of a comprehensive and credible strategy for dealing with the jobs crisis and embedding growth back into the economy.

Redistribution (taxation and transfers)

20. Budget 2011 contains both progressive and regressive elements. Positive developments include the abolition of the employee PRSI ceiling and the removal of certain tax expenditures, most notably those related to property and pensions. There are, however, a number of regressive measures that will increase the level of inequality. These include the reduction in social welfare payments by €8 per week and the proposed reduction in the minimum wage by nearly 12 per cent.

⁵ The SILC data for 2009 shows a 25 per cent increase in consistent poverty.

21. The reduction in tax credits announced in Budget 2011 is also regressive because it reduces the incomes of all individuals earning more than €18,000 by the same amount. The impact of this reduction is more severe (as a proportion of income) on low and middle income groups, than it is on high income groups.
22. The tax changes contain a number of regressive anomalies. For example, a self employed single person with a gross income of €15,000 will see his/her net income fall by €729 while a similar status person with a gross income of €176,000 will see his/her net income fall by €725. Indeed, an individual of similar status with a gross income of over €201,000 will actually see an increase in net income (See Figure 1); and this increase in net income widens as gross income widens.



**Figure 1: Change in Annual Net Income for a Single Person, with no children
Taxed under Schedule D (self-employed)**

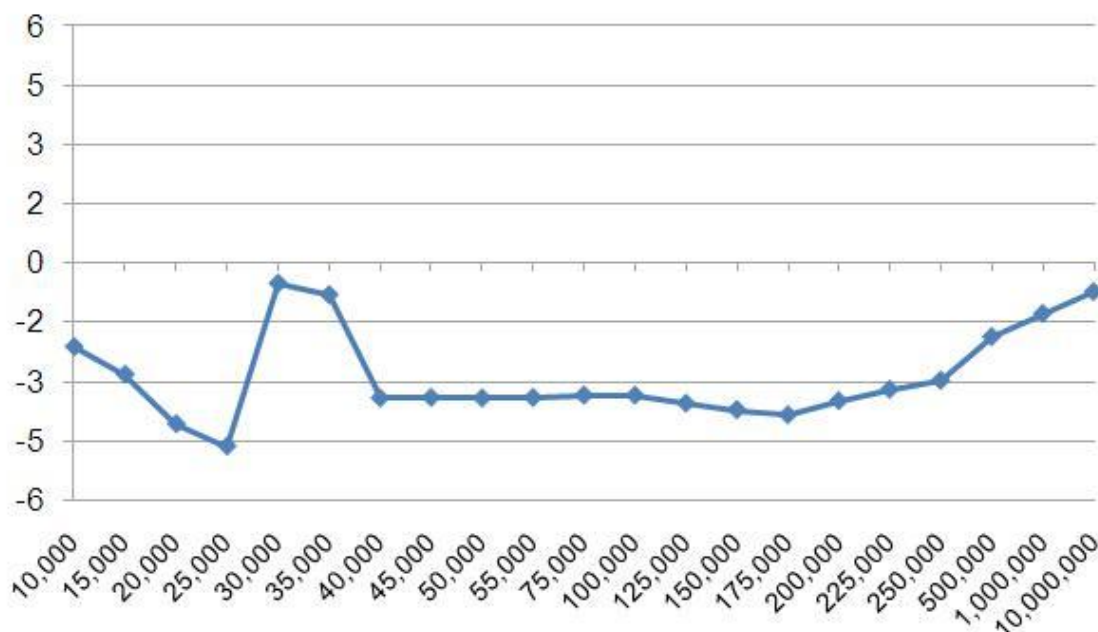


Figure 2: Change in Annual Net Income for a Single Person, with no children Taxed under Schedule A (PAYE)

23. Before Budget 2011 self employed earners paid income levy (up to 6 per cent), health levy (up to 5 per cent) and PRSI (3 per cent, 'Category D'). For very high earners this totalled up to 14 per cent of their eligible income (lower for lower income groups). Under the Budget 2011 proposals, they will pay up to 7 per cent Universal Social Charge plus 4 per cent PRSI, totalling up to 11 per cent. Hence, self-employed people on very high incomes will pay less tax due to this budget.
24. Figure 2 shows the impact of the changes on single PAYE workers. The impact of the Budget 2011 changes on the net income of this category of worker is not as regressive. This is because of the abolition of the PRSI ceiling. Note that all income groups in this category will see a reduction in income under the proposed changes. However, as Figure 2 shows, earners on around €25,000 will see a larger percentage reduction in their net incomes (4.6 per cent) than any other income group.
25. The replacement of the income levy and health levy with the new Universal Social Charge (USC) will increase the level of inequality in the earnings distribution. A USC of 2 per cent will be borne by those earning incomes upwards of €4,004 (that is, by people earning less than €80 a week). The rate increases to 4 per cent at €10,037 and to 7 per cent at €16,017. These changes will lead to an increase in the numbers of working poor. The top rate for the USC (7 per cent) will apply regardless of whether you earn, for example, €20,000 or €200,000. The proposed USC is less progressive than the combination of the health levy and income levy that it is replacing.

Housing

26. Budget 2011 includes a few changes that may have a beneficial effect on the housing market. Stamp duty has been radically reduced to 1 per cent for most housing units (2 per cent for those over €1,000,000). The previous high levels of stamp duty (7 and 9 per cent)

are likely to have inflated house prices during the boom period, as sellers sought to 'recoup' their earlier stamp duty payments when pricing their houses for re-sale some years later.

27. The lower rate of stamp duty will facilitate those who wish to trade down to lessen their housing costs. It will also facilitate people seeking to move area in order to follow employment opportunities.
28. The abolition of tax reliefs in the Budget can also be seen as the removal of distortions in various markets in the economy. For example, rent relief is now to be phased out. Given that most people renting privately could claim this relief, it is probable that the extra money this gave people was largely absorbed by the market price of rent. In the short term, the loss of the relief will cost individuals up to €400 per year but, in the medium-term, competition in the housing market should see rents reduce to compensate for this.
29. The four-year plan proposes the introduction of a 'local authority charge', which will become a site value tax once the necessary data is in place to facilitate this. Unfortunately, Budget 2011 does not begin the process of moving towards a property tax, which would have done less damage to the economy (in terms of slowing growth and lowering employment) than the changes to income tax are likely to do. TASC's proposals for property tax were equality-proofed, with deferred payment available to low and middle income families unable to afford property tax payments. Such an approach contrasts with the Budget's decision to impose significant tax increases on those with low and mid-level incomes, regardless of ability to pay.

Tax Expenditure

30. TASC has been examining the evidence regarding Ireland's tax system for some time, with a particular focus on the accumulation of 'tax expenditure' (tax breaks, reliefs, additional credits, etc).⁶ TASC welcomes the fact that many tax breaks are to be abolished or phased out as part of Budget 2011. On the whole, tax reliefs disproportionately benefit those who earn more, especially when they can be claimed against tax at the higher, marginal rate. Equally, someone on a low income who does not pay much tax cannot fully benefit from tax reliefs.
31. Tax expenditure is called 'expenditure' because giving tax relief is the equivalent of the state spending money to support some area of activity in the economy. For example, hotel tax breaks led to far too many hotels being built, which did grievous damage to that sector, including damage to well-established hotels that have been undermined by 'tax break' hotels.⁷ The Commission on Taxation recommended that "in general, direct government expenditure should be used instead of tax expenditures" (p. 22). There are many economic problems with tax expenditure, including: anti-competitive effects; eroding state revenue; 'diffusion' to unintended areas; underestimation of final costs; giving 'deadweight' financial support to economic activity that would have occurred regardless; and distorting markets. An OECD report recommended that tax expenditures should be a target for reform in order

⁶ See, for example, TASC (2010) *Investing in Recovery, Jobs, Equality* (TASC's Pre-Budget Proposals), and TASC (2010) *Failed Design? Ireland's Finance Acts and their Role in the Crisis*.

⁷ Dr Peter Bacon's study for the Irish Hotels Federation estimated 15,000 too many rooms in the sector.

to raise revenue and enhance the efficiency of the tax system. In addition, the OECD argues that austerity measures (i.e. fiscal consolidation) “should include a rationalisation and reduction of tax expenditures to restore the income tax to full functionality.”⁸

32. Although people may resent paying more tax, it must always be remembered that tax reliefs (beyond the basic single person or married credits) are a bonus. Someone using reliefs is paying less than the full amount of tax they should otherwise be paying, based on their income level. This, in turn, lessens the ‘functionality’ of the tax system – especially income tax – which should be progressive so that those on higher incomes pay proportionately more tax. As such, the loss of a tax relief ‘bonus’ is not the same thing as an actual increase in someone’s tax liability, such as occurred with the rate and band changes in Budget 2011.
33. While Budget Day tends to be given extended media coverage, the technical, legal implementation of the Budget measures in the Finance Bill often languishes in relative obscurity. TASC’s analysis of the last Finance Act highlighted that many subtle changes to taxation, especially tax breaks, often appear in the Finance Bill despite not having been announced on Budget Day.⁹ It will be important to examine the coming Finance Bill 2011 in great detail to see whether all the announcements made on Budget Day are fully implemented and/or whether other provisions are brought into existence.

Pension tax relief

34. TASC welcomes the Government’s four-year plan’s stated intent to standard-rate pension tax reliefs. Tax reliefs at the marginal rate were inherently unfair. An ESRI study shows that 80 per cent of the benefit has gone to the top 20 per cent of earners.¹⁰ The four-year plan estimates that these tax breaks cost the state over €2.5 billion per year. The phasing out of tax relief at the marginal rate will only begin from 2012. TASC argues that tax relief at the marginal rate should be removed immediately, as it is unfair and removing it would be preferable to the welfare cuts or tax increases on low income households, which Budget 2011 delivered.
35. It is important to note that TASC’s objection is not only to the inequality of the pension tax reliefs but to the failure of the system of private pension provision to provide secure incomes for people in retirement. The value of Irish pension funds suffered real losses of 37.5 per cent in 2008, which the OECD (2009) describes as the worst performance across 30 OECD countries. The current system simply does not work, which is why TASC continues to call for the creation of a new social insurance (retirement) fund involving a mandatory defined benefit scheme plus universalised state pension. Details are available in TASC’s updated pension policy: *Making Pensions Work for People*.¹¹
36. In Budget 2011, a series of other changes were made to the tax regime for pensions, including reducing or removing the ability of employers and employees to claim relief on

⁸ OECD (2009) *Economic Survey: Ireland*, p. 61

⁹ TASC (2010) *Failed Design? Ireland’s Finance Acts and their Role in the Crisis*. <www.tascnet.ie>

¹⁰ Callan et al (2009)

¹¹ TASC (2010) *Making Pensions Work for People*.

<<http://www.tascnet.ie/upload/file/Tasc%20Pension%20Update%202010%281%29.pdf>>

PRSI or the new Universal Social Charge from contributions made to pension schemes. Caps were also placed on 'tax free' lump sums drawn down from pensions as well as the maximum size of pension funds. These are welcome developments, but fail to address the fundamental inequality of the state supporting already high income people to avoid taxation so that they can enjoy higher pensions in retirement.

Property-based tax reliefs

37. A particularly welcome measure in the Budget is the curtailment of Section 23 tax relief. The original legislation was so open that tax relief on income from other properties could be claimed by someone with a Section 23 rental property. In other words, a tax incentive to buy-to-rent in one area gave landlords a way of avoiding tax from other, non-incentive area properties. This kind of loose tax break had large 'deadweight' effects, rewarding economic behaviour that would have occurred anyway. It also created unsustainable demand for housing that was based on tax avoidance, rather than occupation or renting.
38. One weakness of the Budget is that some of the most expensive tax breaks, such as legacy costs of property-based reliefs, are only being phased out slowly, which leaves open the possibility of last minute use of these capital reliefs, at a further loss to the Exchequer. Instead, they should have been immediately 'guillotined', with the door firmly closed against any further tax loss to the state to avoid last-minute use of the incentives; and consequentially more tax revenue could have been saved in this area in Budget 2011.

The Cost of Tax Expenditure

39. The four-year plan is *incorrect and misleading* in its explanation of the OECD finding that tax expenditure cost €11.49 billion in 2005. The four-year plan states that "80% or €9.72 billion of all the tax expenditures relate to personal allowances/credits/bands, pensions and savings" (p. 95).¹² The OECD's figures do not include the effects of the income tax bands. In addition, the OECD calculation shows that €7.2 billion from income tax relief came from other sources than basic personal credits (i.e. Single Person's Credit, Married Person's Credit and Widowed Person's Credit). In other words, 62 per cent of the €11.49 billion tax expenditure on income tax came from other credits and allowances, which are not 'basic' or part of the 'baseline' tax system.¹³ TASC explained and replicated the OECD findings with 2006 data in its pre-Budget proposals submitted to the Department of Finance (see pages 28-29).¹⁴
40. The four-year plan is correct that there is a lack of public understanding about tax expenditure; this is due in no small part to the inadequate data available on this area. When the €7.2 billion of 'non-basic' tax credits and allowances are examined, they contain a wide range of items, including as examples: the PAYE tax credit, tax relief on private medical insurance and health expenses, the tax exempt status of Child Benefit, relief for investment

¹² TASC (2010) *Investing in Recovery, Jobs, Equality*. pp. 28-29

¹³ This is in line with how the Commission on Taxation defines the 'baseline' tax system.

¹⁴ TASC (2010) *Investing in Recovery, Jobs, Equality*. pp. 28-29

in films and TV, tax relief for paying third-level fees, approved profit-sharing schemes, and the various pensions/savings reliefs.

41. The reform of this area is complex and demands a commitment to substantial overhaul of the tax system to make it simpler, transparent and equitable. In particular, the removal of some tax reliefs may require balancing changes to be made in areas of economic or social policy. For example, TASC's proposals regarding pension tax relief are not just about removing an unjust relief, but are also about developing a system for ensuring everyone has a better, more secure pension. Nevertheless, there is a need to look at the overall distributional effects from the combination of the taxation, tax reliefs and the welfare system; it is hard to justify benefits to middle income earners, if the alternative is cuts to payments and services on which more vulnerable people depend.

Transparency

42. Budget 2011 was in some ways more transparent than in previous years. Because many of its provisions were already published in the Government's four-year National Recovery Plan, there was an opportunity for analysts and commentators to have more time to examine and come to conclusions about some of the 2011 budgetary measures.
43. Every Budget should be accompanied by a four-year plan, alongside other macroeconomic projections and data. As Professor Philip Lane of Trinity College Dublin notes: "under the proposed new economic governance regime for the European Union, such multi-year plans will become a normal part of the political cycle. In principle, a multi-year plan has many advantages, since the pre-announcement of future spending and tax plans should reduce fiscal uncertainty and provide a better basis for private-sector spending and investment decisions. A multi-year plan is also helpful in setting out a government's philosophy in terms of tax and expenditure levels and its targets for the delivery and reform of public services."¹⁵
44. However, the Budget 2011 documentation could be made much more transparent and easy to use by both the general public and by analysts wishing to examine the implications of the budgetary measures. The Department of Finance could easily provide Budget documentation and supporting material in easily accessible formats, appropriate to the needs of different sectors, including civil society organisations, business and the general public. For example, all data relating to the Budget should be routinely available in raw form (e.g. spreadsheets) so that analysis can be conducted by analysts in civil society organisations and business. In this context, good practice in the UK (www.data.gov.uk) and USA (www.data.gov) should be examined.
45. The Government and Department of Finance should compile a single database of all state assets and liabilities, and make it publicly available. Part of the 'deficit reduction' in Budget 2011 is merely a technical change to re-categorise the new Universal Social Charge as tax revenue, whereas previously it was a departmental revenue stream. This sort of change simply confuses analysis and reduces credibility about whether Budget measures are

¹⁵ The Irish Times, 25 November 2010.

<<http://www.irishtimes.com/newspaper/opinion/2010/1125/1224284099257.html>>

successful in bringing about real savings or increased revenue. A single database of all state revenue streams would facilitate this analysis.

46. The issue of transparency is also directly linked to the question of tax breaks. The Budget documentation is useful in so far as it provides 12 example households and how the tax changes affect them, in *Annexes to the Summary of 2011 Budget Measures*. However, these examples are neither complete nor balanced. For example, there are no examples of married couples with two earners, and the tables stop at earnings over €175,000; thus failing to illustrate that self-employed people on over €200,000 are in fact better off after tax and social insurance changes in Budget 2011. Also, an unrealistic assumption is made that a six per cent pension contribution is made by workers, regardless of their income. Firstly, the evidence shows that less than half of Irish workers have a private pension. Secondly, it is unrealistic to assume that workers on low gross incomes can afford to save anything, in the context of the current cost of living. Therefore, the examples and the changes in net income they illustrate must be regarded as inaccurate and misleading, which is a serious concern when it occurs in the official Budget documentation
47. A more comprehensive database should be used to show the effects of the Budget on realistic archetypes of all typical households. Any models used should be openly available to researchers from multiple organisations, to avoid any accusation of bias in the choice of variables or timeframes.
48. The Finance Act 2010, Section 1, included a new requirement that the Minister for Finance must, within three months, prepare and lay a report before the Dáil giving "...a cost benefit analysis of tax expenditures provided for by this Act, setting out the costs of tax foregone, and the benefits in terms of job creation or otherwise." It will be an important test of transparency to see if this requirement, which includes a published rationale as well as some quantification of costs for tax reliefs, remains in the Finance Act 2011.
49. In particular, TASC proposes that all current and proposed tax expenditure should be subject to an equality audit and economic efficiency audit. In addition, they should all be subject to an annual check and vote by the Oireachtas, as they constitute a major area of public spending. Most developed countries report systematically on tax expenditure every year. The World Bank associates the absence of such reporting with developing and transition countries.¹⁶ The Australian Tax Expenditures Statement should be looked at as one example of good practice in reporting tax expenditure. The Government should publish the recent Departmental reports on tax expenditure and the Department of Finance's analysis of these.
50. Parliamentary questions should be permitted on a year round basis for topics related to the preparation of budget proposals as this will allow for an improved level of debate and analysis using the most up to date figures available.
51. TASC welcomes the provision in Budget 2011 that future budgets will include measurement of wellbeing across a series of non-monetary indicators. It will be important that these indicators are used to inform and guide policy-making. As part of these measures, an annual Equality Statement should be published to show distribution of income and wealth, and to

¹⁶ Brixi et al (editors, 2004) *Tax Expenditures – Shedding Light on Government Spending through the Tax System*. Washington: The World Bank. p. xi.

show the distributional impact of all Budget measures. Good practice in Norway and Scotland should be examined in this regard.

52. In other countries, journalists, analysts and Opposition politicians are given previews of Budget documentation in secured rooms. This ensures that more informed and intelligent discussion and analysis can follow the announcement of the Budget's measures, rather than a drip-feeding of findings as rapid analysis is conducted on documents so that the public, through the media, can be informed of their content. The introduction of such 'Budget lock in' sessions would assist a more mature debate about fiscal and budgetary policy in Ireland.

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