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Areas where taxes can and should be raised in Budget 2010

Supplement to Congress pre-Budget Submission

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Irish Congress of Trade Unions

December 2, 2009

A recent poll found that 76 percent of Irish people favour raising taxes on the well-off in response to the current crisis. While it is recognised that such is the extent of the fiscal crisis that public spending will have to be reduced, taxes must also be raised, judiciously, to mitigate the scale of the cuts. It is not an "either or" option as some have stated.

High Income Earners

Taxes in a crisis can be deflationary - except when they are on high income earners. They don't spend all their money, as they don't need to.

In Germany, a group of wealthy individuals have begun lobbying for higher taxes. "Its time for the wealthy to come to the aid of their country" said Dieter Kelmkuhl. Another lobbyist, Peter Vollmer, said he had inherited "a lot of money I don't need."

Where are the Irish wealthy in this time of Ireland's need? They have sent out their pet economists, the commentariat and bodies like the Institute of Taxation to argue that there is no tax to be found.

Theirs' is a bitter twist of F. Scott Fitzgerald's comment on 'the rich being different'. They assert that the Irish rich are different than the rich elsewhere - the Irish rich are really poor. The data says otherwise.

Instead of modest increases in taxes on the “poor” Irish rich, their agents argue for cuts in social services! We put a different case. It is time for high earners to show their patriotism.

Real Money is still Here

In the last seven years capital gains **realised** on property and other assets amounted to a staggering €66bn. This was the declared gains on which CGT was paid, and after all the exemptions etc. This was real money – real cash, gained and pocketed by real people and firms. Some of the money has been lost, some spent and some invested abroad. But it was made here. Most of it is still here – among the really well-off. Income and wealth is very unequally distributed in Ireland. If this has changed, the gap is now likely to be wider.

Inequality and the Structure of Taxation

Ireland is one of the most unequal countries in the world. Minister Lenihan confirmed this when he addressed the merchants of Dublin in their Chambers. Income is so unequally distributed that only 4 percent of taxpayers pay almost half of all income tax. We all should be ashamed of this gross unequal distribution of income. And then there is wealth – an area where Ireland has no official data, especially on its distribution.

It is important not to be misled by Mr Lenihan’s oft-quoted statistic on most tax being paid by high income earners. Due to the perverse structure of the taxation system, most taxes are paid by the little people. His comment may be true of income tax but not of taxes generally. For every €100 paid in income tax, a further €147 is paid by everyone, including children, on spending taxes. These spending taxes are not progressive – but income tax is.

And the progressivity of income tax is dulled greatly, by ‘tax incentives’ and by soft treatment of tax fugitives. However, the income levies have restored a great deal of progressively into the income tax system as they are levied on gross income before any tax incentives/ shelters are taken into account. In time, the overall system must be consciously (after integration or changes in the levies) re-balanced to a greater degree, from spending taxes to income tax.

A Temporary Minimum Tax on High Income Earners

Most high income earners did not pay much or any income tax, by utilising the many tax shelters/ avoidance schemes provided by government, under the guise of ‘incentives’ for business. They now pay some tax with the minimum tax of 20 percent since January 2007, but would not have paid anything had Congress not lobbied for a minimum tax rate for these wealthy tax avoiders.

High Income earners now pay at an effective rate of only 20.3 percent. Those earning between €200,000 and €500,000 paid at only 13.63 percent effective tax. Yet regular high earners pay at close to 40%, where they have not availed of the tax shelters. The new minimum effective tax rate is better than before - but is still too low.

Instead, **Congress is proposing a temporary increase** in the minimum rate payable and a reduction in the income levels at which this should apply. The rate proposed is 35 percent on all high incomes, with the threshold of high incomes reduced to €100,000.

In 2007, the average rate of tax paid by the very top 4 percent of taxpayers was only 25.7 per cent.[1] This income is after deductions on patent royalties; earnings of artists and the subsidies for pension contributions etc.

Increasing the rate to 35 percent would raise €117m.[2] This does not include the various pension deductions, which are very substantial.

There is a limit of €150,000 a year on earnings for pension purposes which would be reduced to €100,000. The "standard fund threshold" which is the capital value of the amount of tax relieved pension a wealthy person can draw on.

It is currently €5,418,085. The Commission on Taxation proposed to limit the tax-free element of the pension lump sum to a maximum of €200,000, curb excessive contributions close to retirement and more which we concur with. Pension contributions are not treated as tax incentives when determining the minimum tax charge above for high earners. We believe that they should be and that would significantly increase the tax yield from the minimum charge. Thus it is our guesstimate that between €56m and €90m could be raised from these further restrictions on pension tax reliefs, applied only to those earning over €100,000

Potential Revenue: €173- €207m

A New Top Rate of Tax of 48 percent

[1] PQ 17th November 2009 No 41374. J Burton

[2] PQ 3rd November no 38989, J Burton

Congress has sought a new top rate of income taxation. The new levies are progressive and in time should be re-assessed and merged into the tax system at an appropriate time in the future to provide for a new high rate on very high earners. Congress has proposed a levy on tax avoiders who earn over €100,000 and as this and the marginal rate of tax plus levies, plus PRSI combined are now quite progressive, we would favour the tax rate of 35 per cent on high tax avoiders, until a review is undertaken after the crisis. There is a strong case for raising the PRSI ceiling on equity grounds.

Revenue: Raised under the levy on tax avoidance.

Tax Exiles or Tax Fugitives

Tax Fugitives make huge sums here and pay no tax. While there are 5,867 non resident individuals who file tax return here, many are foreign nationals and many Irish would have genuine foreign domicile. Yet a sizeable number of very wealthy individuals make a lot of their money here - Ireland is the centre of their economic interests. Some of them have the families who live here and children who go to school here.

A number of Irish tax fugitives control key parts of our media and so influence what we think. They turn the old cry of "no taxation without representation" on its head. They have vast representation and influence, but pay no taxation.

The current law is very loose with the 183 days test being over twice the UK limit of 90 days and it is self-policed only. If their main centre of vital interest is in Ireland, or they pass a permanent home test, then they must pay taxation here from January 1, 2010, as advocated in a

recommendation of the Commission on Taxation (no 5.30). This vital interest would be economic or social.

The revenue is a very difficult number to determine. Even with a fully worked out scheme revenue will not be revealed until it is operational. A modest estimate is between €50m to €65m, next year[3].

Potential Revenue: €50 to €65m in first year, 2010.

Excise Taxes

While we would prefer not to raise indirect taxes for the above reasons and also to do with cross-border trading, such is the crisis that all options must be considered. Modest increases in taxes on petrol (10c) cigarettes (50c) etc. will raise €583m.
As this fuel / carbon area of these taxes is covered by the proposal for a Carbon tax which is said to raise around €500m, we are not counting these tax increases.

A Temporary Wealth Tax

Wealthy people don't spend much of what they earn - they simply cannot. In such a deep crisis, why not have a temporary wealth tax on those with wealth of over say €2m for the next 3 years. Wealth would be defined as current value of all assets, including private homes in excess of €1m value.
This should raise €30m or more, annually.[4]

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[3] Congress' estimate. Unless specified that it is our estimate, the figures are those of the Dept of Finance given in PQs of directly given to Congress

[4] Congress' estimate

Potential Revenue: €30m

Levy on Corporate Income

Congress called for the temporary levy to be raised on all income in previous Budget submissions. This levy was imposed on personal incomes, on inheritances and savings, but not on corporate income. Mr Lenihan told the American Chamber of Commerce in Ireland that he will not raise this rate of tax. The projected yield in the last Budget was to raise €3,840bn in 2010.

Yet the collapse of the private banks, of the many property and building companies and construction related companies means that many companies will have losses forward to offset against future profits for many years to come. Letting the failed banks collapse would have eliminated this additional moral hazard, so costly to other taxpayers.

This means that the net corporate tax yield in Ireland will be down substantially – reduced by the losses generated by reckless trading by the private sector banks and property speculators. Thus the case for a modest additional levy on the income of the corporate sector is compelling. A modest increase of 2% will raise €614m in 2010.

Potential Revenue: €614m in 2010

DIRT Tax

Taxation on savings is levied at rates well below that on tax on work and enterprise. Congress debated a higher rate on very large deposits

but rejected this as impractical. A rise in the general rate to 30% would raise an additional €125m in 2010.[5]

Potential Revenue: €125m

Tax Evasion

Ireland's elite has a long and inglorious history of tax evasion. Audits are very good at exposing webs of evasion. There is still much evasion and this crisis is the time to really crackdown. Indeed, as reported in today's papers, Revenue's audit and investigation programmes raised €97m in just three months! Overall, this should raise many hundreds of millions in time, in the range of €300-400m.[6]

Potential Revenue: €300m -€400m

Uncollected Taxes

There is €1.8bn in uncollected taxes. About €1.2bn of this is collectable. A proportion of this is Fiduciary Taxes. While it is recognised that the Revenue is pursing this money routinely and it has hired six firms of solicitors to chase it, more direct action is urgently required. A hard drive would pull in €350 to €450m in 2010 when the money is so urgently needed. This is our estimate of additional revenue generated by a concerted drive on top of the usual raised in the year by Revenue.

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[5] Finance

[6] Congress' estimate

Revenue: €350 to €450m

Capital Gains Tax

The rate of Capital Gains Tax is 25 percent, whereas the rate of income tax is 41 percent. We propose raising the rate of CGT by 5 percent to 30 percent in the Budget. This will raise at least €65m in 2010.[7] We also propose that a proportion of the gains on the disposal of private residences in value of over €1m be subject to CGT and that the normal principle private residence exemption cannot be availed of more than once every 3 years.

Just as the corporate Ireland will have massive losses to set against future profits for years to come as a reward for their reckless trading, so too will all those who lost money in shares be able to offset them against future capital gains. That is not unreasonable. However, those speculators who invested recklessly and knowingly in the likes of Anglo Irish Bank will also be able to offset their loss against other gains. This should be curbed in every way possible.

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Potential Revenue: €65m - €75m

Capital Acquisition Tax

Capital Acquisition Tax was increased in last Budget for the first time ever. It had been eviscerated each year before. It remains low and gives a massive benefit to those who are born sons or daughters of rich people. The reversion to several progressive rates based on rising thresholds (abolished in 1999) should be re-introduced.

These measures will restore merit at the heart of business and reintroduce a measure of social equity. The restoration of the

[7] PQ 3rd Nov 09

progressive rates measures with say, taxing the first €50,000 over the tax free threshold at 25 percent; the next €50,000 at 30 percent; and the balance at 35 percent. It is estimated that this would yield of in the order of €100 million.[8] In addition, the 90 percent deduction on inheriting a business or farm should be reduced to 20 percent would generate €150m in a year.[9] These measures may alter behaviour in the short run, which would impact on the yield in any one year. It is also proposed that the minimum annual distribution for tax purposes of Discretionary Trusts is increased to the same level as that of approved retirement funds.

Potential Revenue: €250m

Or Re-Introduce the Probate Tax

The Probate Tax at 2 per cent of estates was abolished some years ago. Re-imposition at four per cent would raise around €110m in 2010.[10] However, if the CAT tax was properly re-structured, an additional tax on probates would not be required.

Personal Tax Deductions

Congress has suggested many detailed reforms to personal tax deductions over the years. Our proposals centred on equity. All would raise additional taxes from wealthy and very high earners. These have included curbing pension allowances for high income earners, a ceiling on artist exemptions, patent royalties and an end to the bloodstock industry exemption. Some have been implemented. All remaining

[8] Dept Finance

[9] Finance

[10] Finance

incentives should now be reformed equitably to raise much need cash. These changes could raise tens of millions, say €40-50m.[11]

Potential Revenue: €40 -€50m

Low Earners

Some 1.05m (46 percent) of the total of 2.29 tax units did not pay income tax in 2007- their income being too low. Many earn very little at all. The Government has signalled that it intends to raise tax from those on low incomes. As there are so many on low incomes, the revenue raised can be substantial overall. Congress is opposed to this move. It's not just unfair, but bad economics. It will deflate the economy further. The more raised from the low incomes,[12] the greater the deflationary impact on the economy.

Conclusions

There is the potential to raise additional tax revenue of between €1,997m and €2,266m in Budget 2010.

These reforms would make the tax system more progressive, generate greater levels of income in the future and render many cuts totally unnecessary.

This revenue is raised largely from high income earners especially those who pay lower effective rates than many taxpayers, from unearned wealth and gains which is now taxed lower than incomes and from applying the income levy to corporate incomes, which have been excluded so far from helping out in the crisis.

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[11] Congress' estimate

[12] With the exception of households where there are others who earn good incomes.