

Options for raising tax revenue in Ireland

Budget Perspectives 2022

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Presenters

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Likely need for higher taxes in the coming years

Spending rose from €87.2bn in 2019 to €106bn in 2020

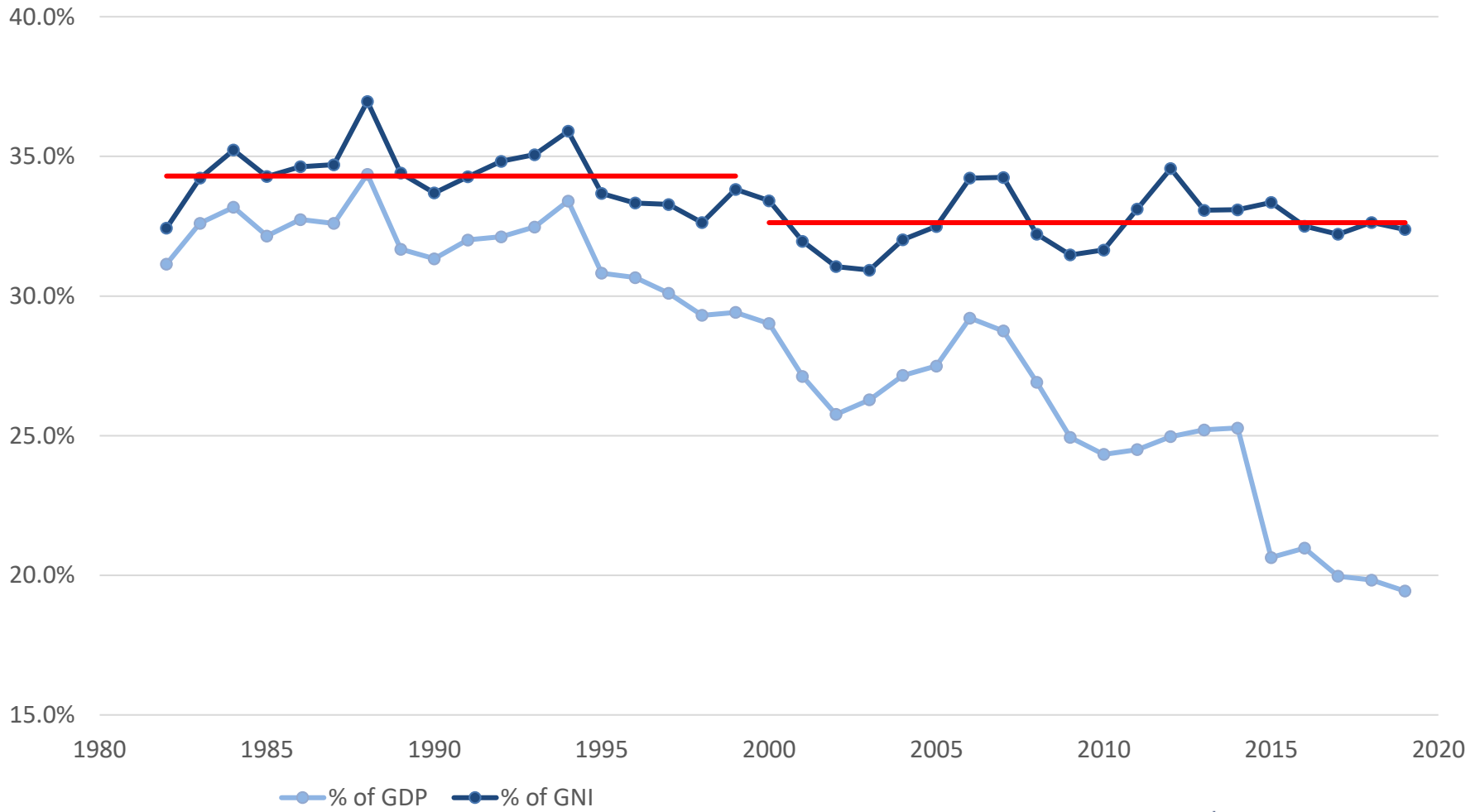
- Deficit financed spending the appropriate response to COVID-19 pandemic and should not be withdrawn prematurely

However...

- Budget 2021 raised non-COVID spending by >€5bn (IFAC)
- Big commitments to reform health system & expand social welfare entitlements in Programme for Government
- Potential over-reliance on corporation & motor tax receipts
- => need for substantial tax increases in the years ahead

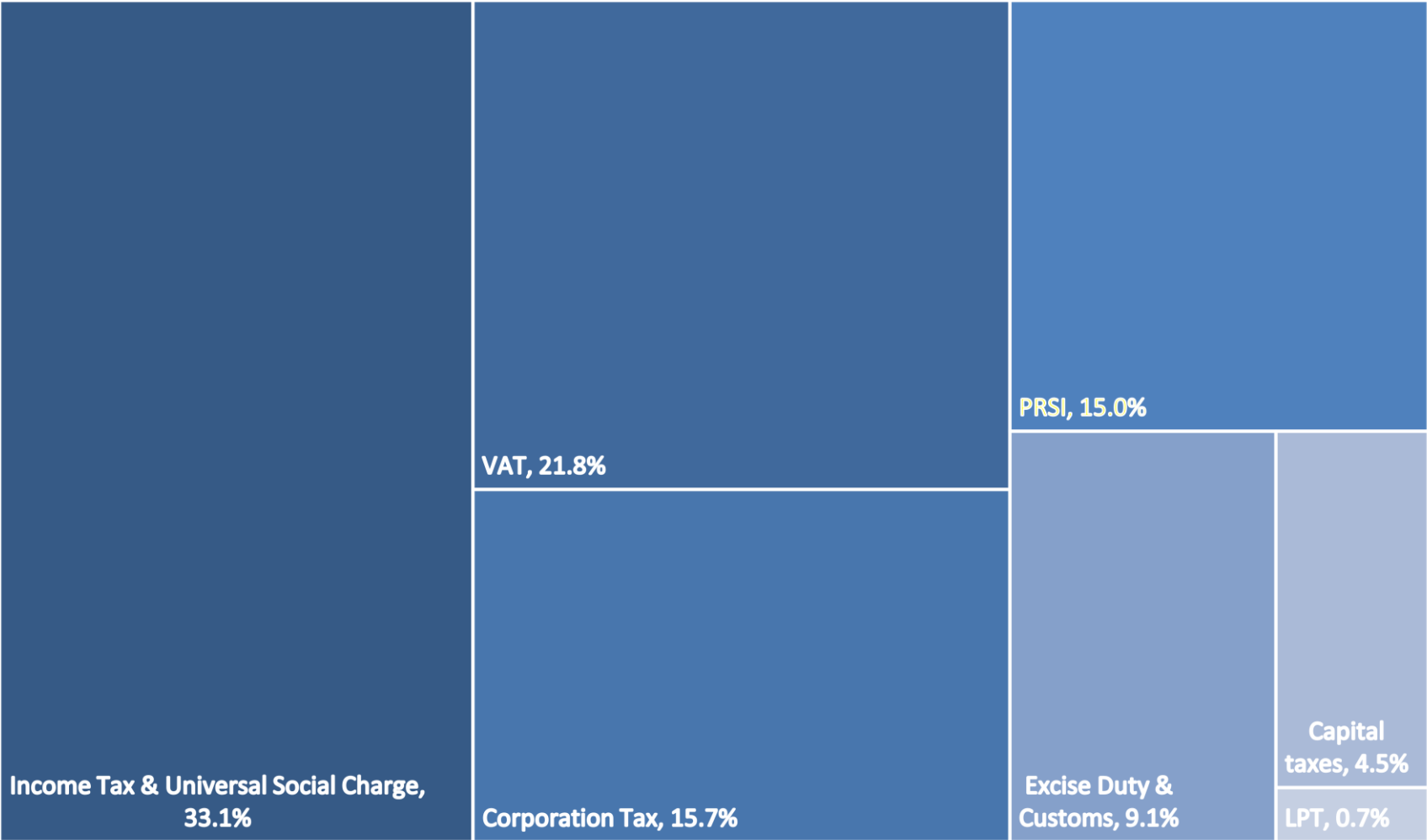
Ireland raises slightly less in taxes than it used to

Tax revenue as a share GDP & GNI*



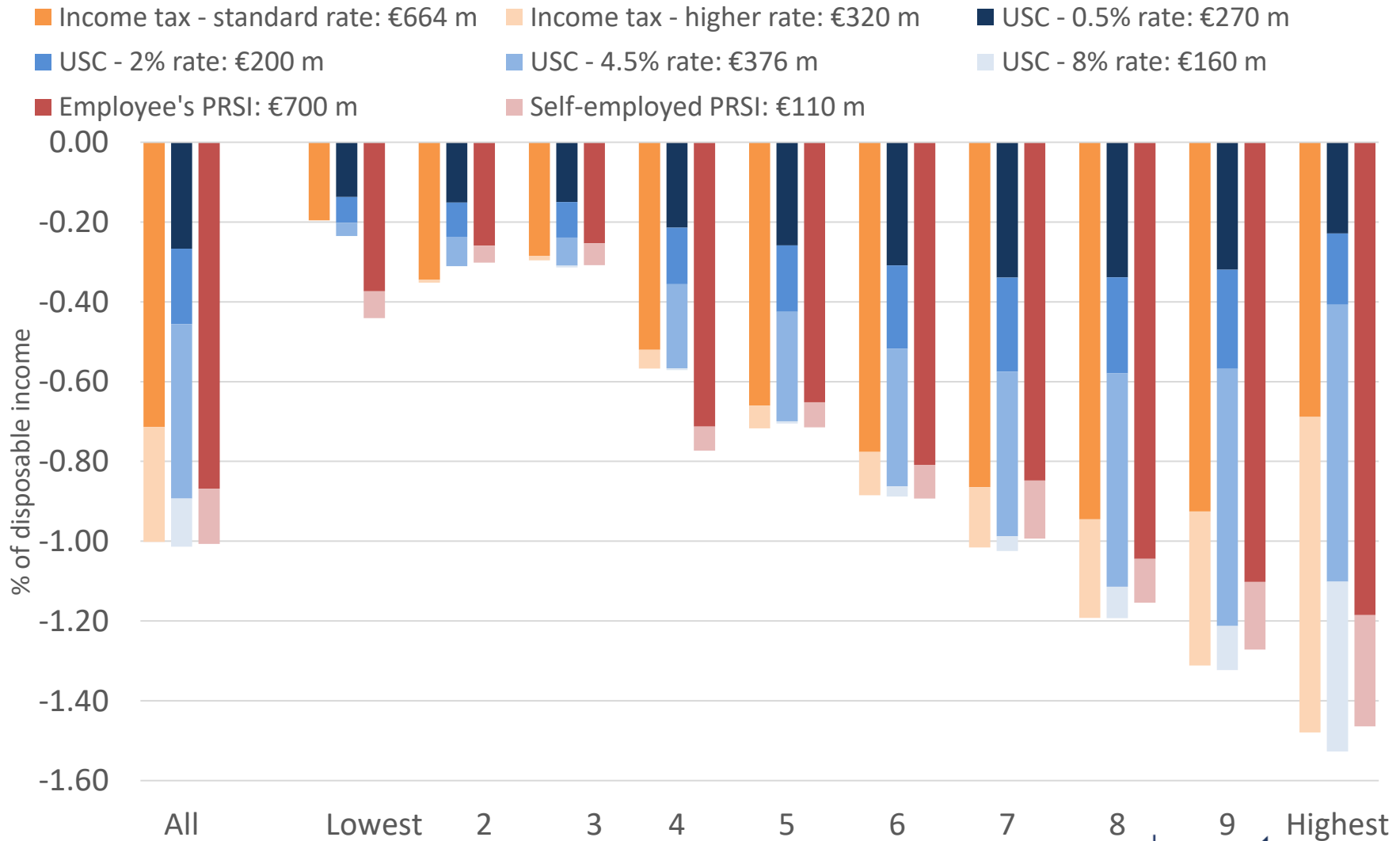
Source: See Figures 2.1 in "Options for tax increases"

... with revenues coming from four main sources



Source: See Figures 2.3 in "Options for tax increases"

Raising taxes on personal income could raise €€€



Source: See Figures 3.1 & 3.2 in "Options for tax increases"

As could increases in VAT (though less progressive)



Source: See Figures 3.3 in "Options for tax increases"

Other options for broad-based tax rises include:

Increasing excise duties & the carbon tax

- 10% rise in all rates would raise about €600 million
- Burden would be more for lower-income households
- But better suited to addressing externalities than raising €

Revaluing and extending the Local Property Tax

- Currently based on 2013 property values
- Newly built owner-occupied dwellings currently exempt
- Extending to these & updating values would raise €275m

Could also raise main rate of corporation tax

Though unclear what such a tax increase could yield

- Receipts highly concentrated among small number of firms (51% from just 10 in 2019) => sensitive to their decisions

Increasing rate would have other economic effects

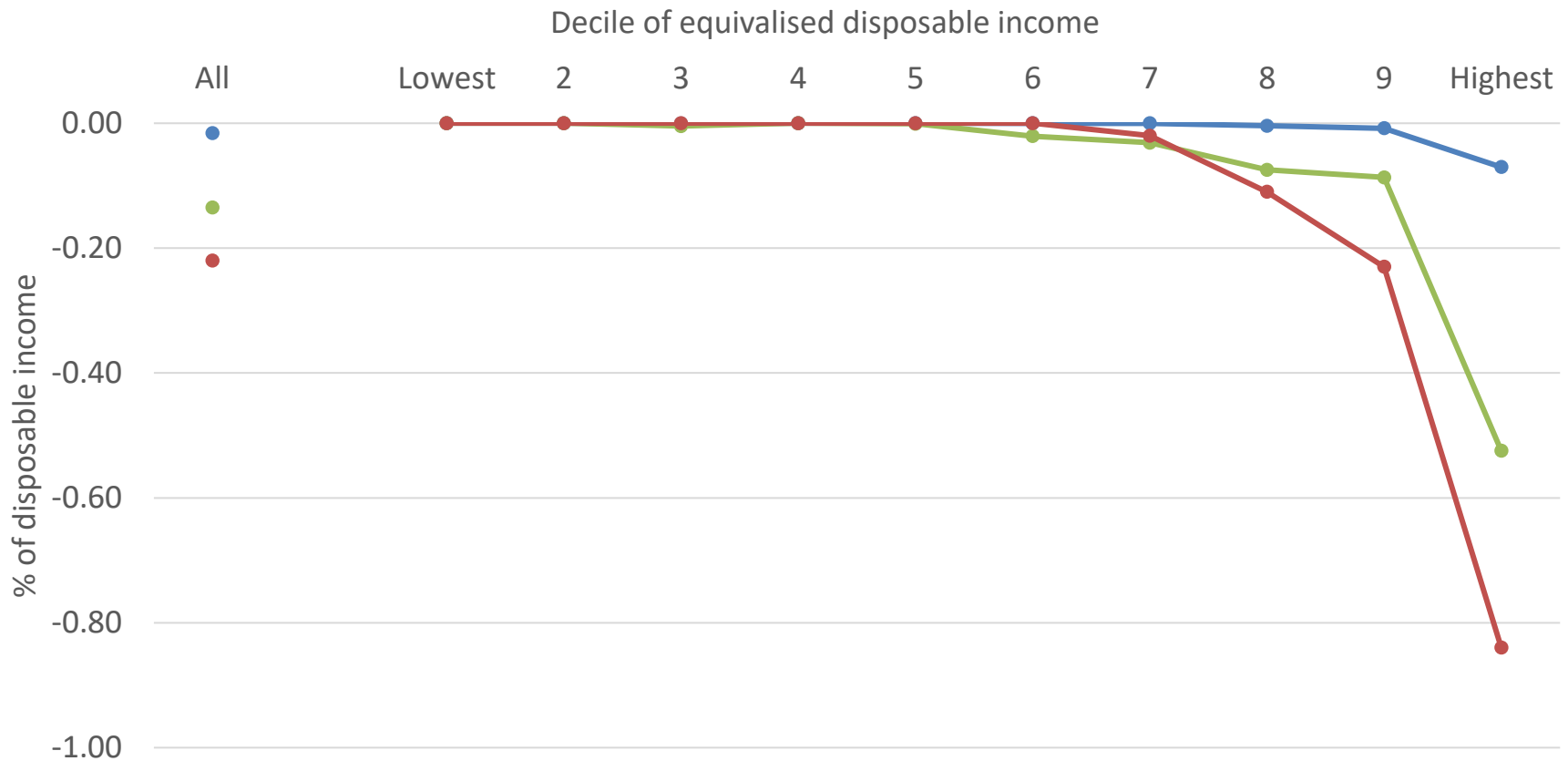
- Would discourage investment (both foreign and domestic)
- Some of burden would fall on workers, consumers & retirees

... and international environment is in flux

- OECD BEPS process nearing agreement; UK & US raising rates
- May be argument for leaving rate and structure of corporation tax unchanged until implications of this are fully understood

Or focus tax increases on higher-income people

- 1% rise in existing USC surcharge on non-PAYE income (€14m)
- New 3% USC surcharge on PAYE income above €100,000 (€110m)
- New 43% rate of income tax above €100,000 (€315m)



... or on those with lots of wealth/inheritances

Recurrent wealth tax would need to exempt few people or sources of wealth to raise substantial revenue

- 90% of household wealth held as property, even for top 10%
- But most property already subject to the Local Property Tax

More scope to raise taxes on transfers of wealth

- Less than 1/2 of deaths lead to an inheritance subject to CAT
- Average payee in 2019 had received c.€600k from parents/kids
- Reducing tax-free threshold from €335k to €250k would raise c.€63m (more if accompanied by increases in the rate)

Potential to improve design of taxes while raising €

Many reliefs poorly targeted at achieving stated aims e.g:

- CAT Business and Agricultural Relief (€360m in 2019)
- €200k tax-free pension lump-sum (cost €134m in 2014)
- Help-to-Buy (c.€100m per year)
- Entrepreneur relief (€92.4m in 2018)

Self-employment is highly tax favoured vs employment

- No equiv. of employer PRSI (8.8-11.05% of pay for employees)
- Blanket lower tax rates poorly targeted at entrepreneurship
- Very similar access to contributory benefits (93% in value terms)
- Equalising rates could raise €1.15 bn

Conclusions

Need for substantial tax increases in coming years likely

- While many ways to focus tax increases on ‘better off’, would struggle to raise substantial €€€ unless set at very high rates
- Relatively straightforward to raise substantial €€€ by increasing broad-based taxes on income, consumption & property
- Can still achieve distributional goals with such tax increases

Wide range of anomalies in the current tax system

- Create distortions which raising rates alone could amplify
- Addressing these could raise revenue while leaving tax system better designed for the coming decades