

Tax Policy Issues: Ireland

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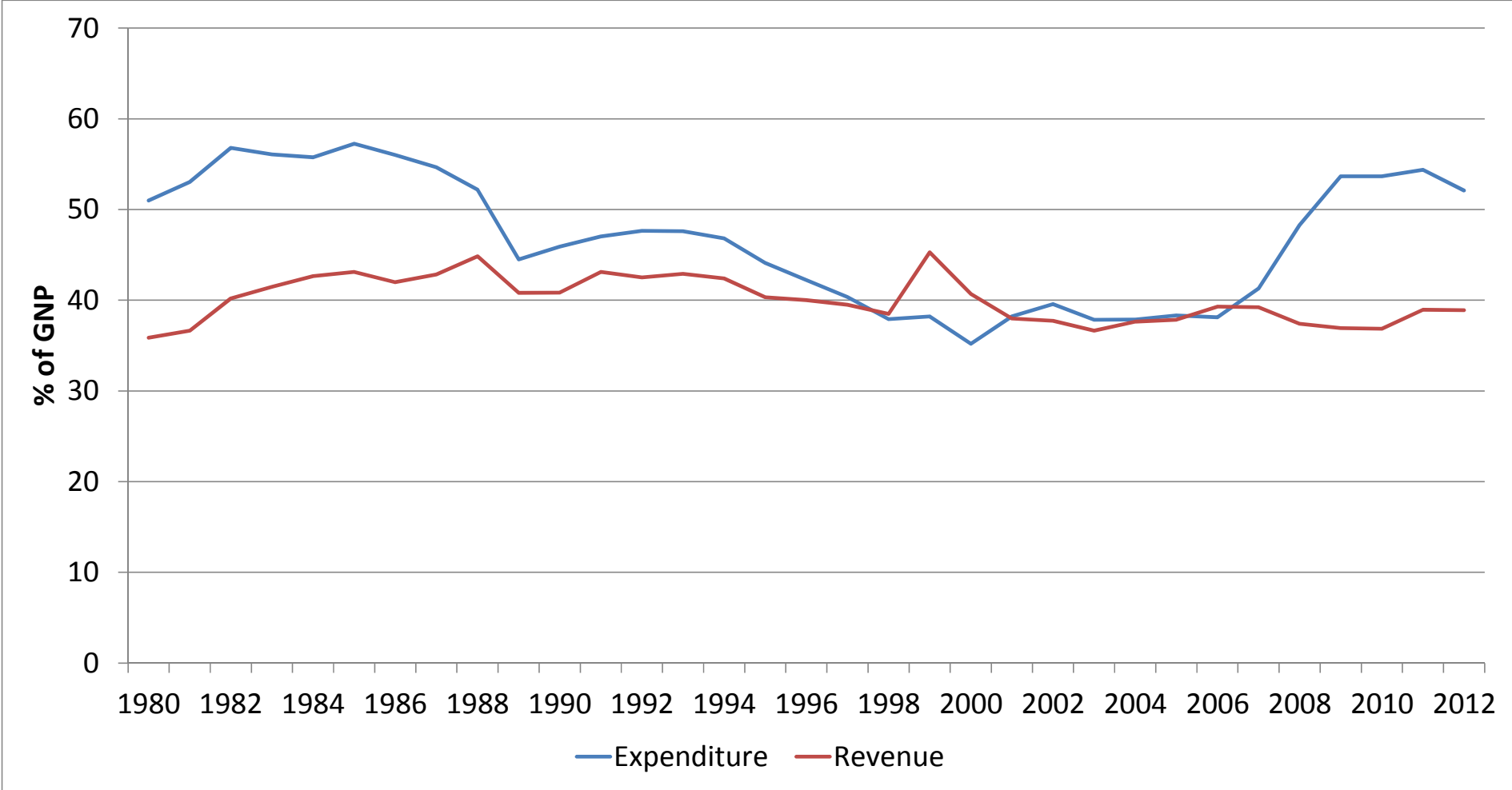
Outline

- Structure of taxation: crisis exposed problems
- Tax Reform – principles
- Tax Reform - practise
 - Income Tax – post 1980s reforms
 - Corporation Tax
 - Economic effects
 - Future Strategy
 - Financial Transactions Tax
 - Property Tax
 - Carbon Tax

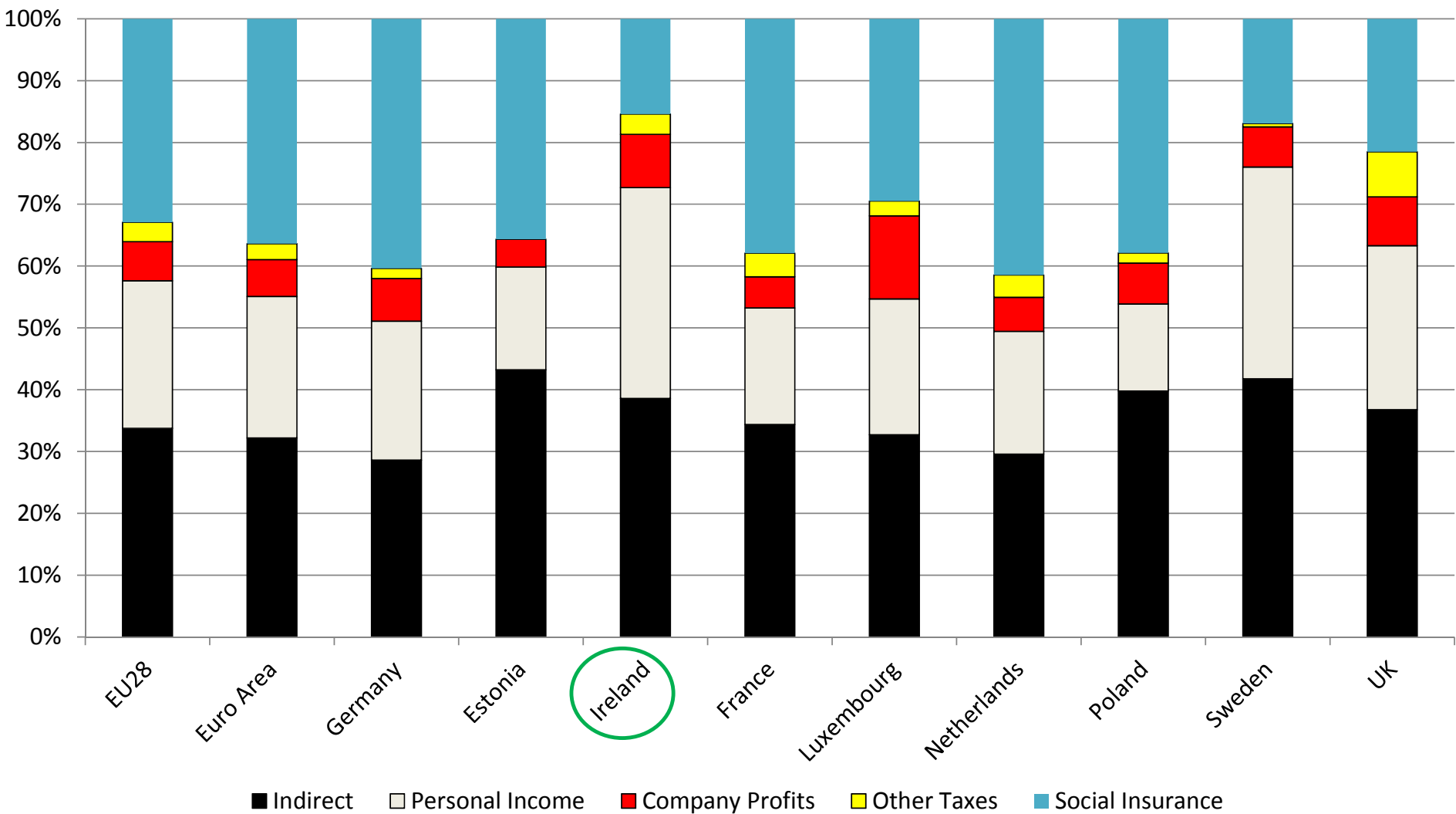
Government revenue & expenditure



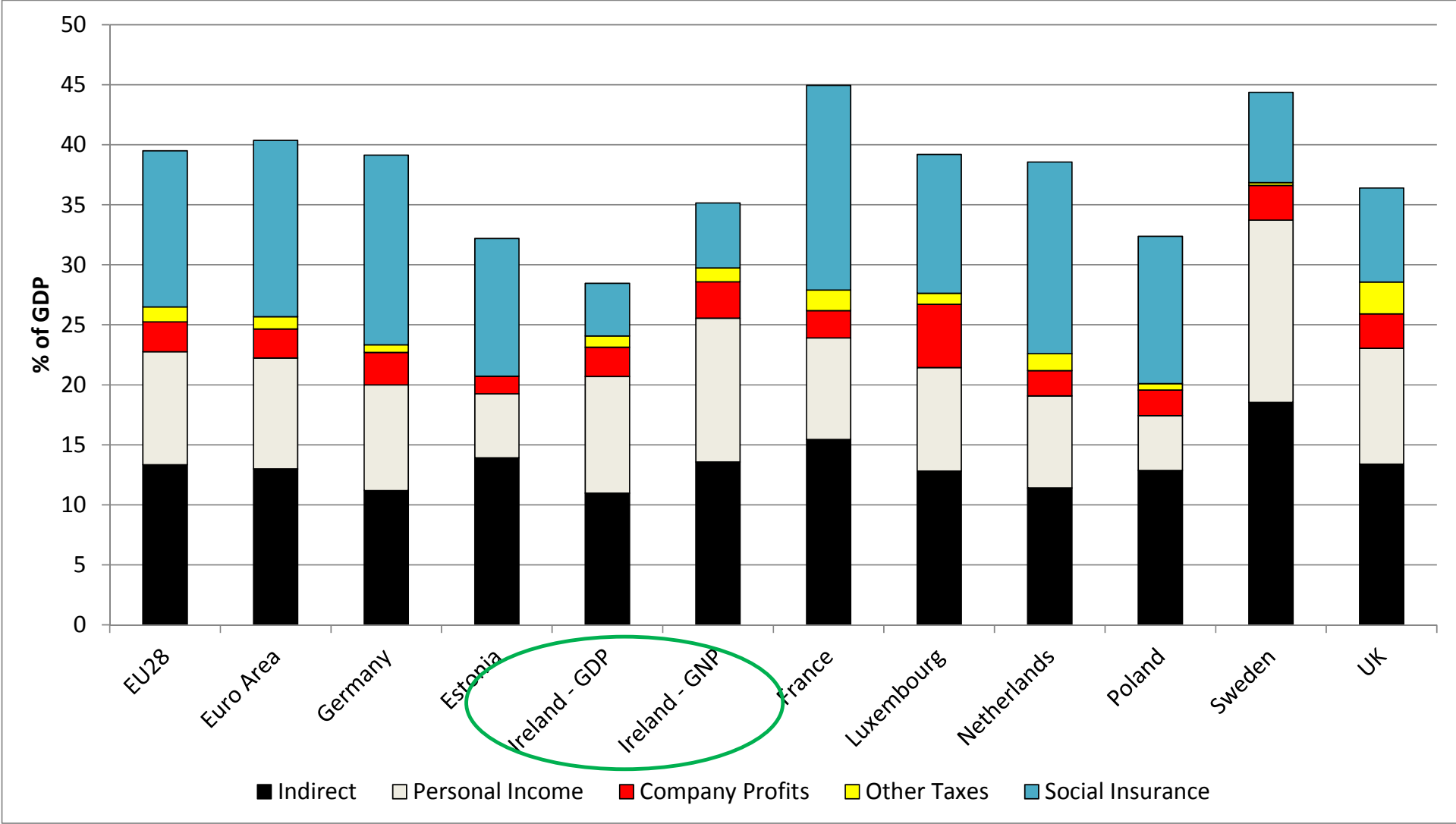
Ireland



Structure of Taxation - 2012



Taxation 2012 - % of GDP





Tax Reform

- Low corporation tax since 1950s
 - Originally only on profits on exports
 - Gradually extended to all activities - EU law
- Commission on Taxation: early 1980s & 2009
 - Broaden Base and reduce marginal rates
 - Applies to corporation tax and income tax
 - 1980s high marginal income tax rates – losses
 - Broaden base – property tax, environmental taxes
 - Reduce transactions taxes on property etc.

Corporation Tax – economic effects



- Low rate and wide base – big share of revenue
 - Consistency of approach – over 50 years
 - Attractive to many foreign firms
 - Manufacturing – c. 50% of employment in MNEs
- Extended to all economy (services) late 1990s
 - Added 3.7% to level of GNP
- Structure of economy optimised for regime
 - Major change in tax regime could have big effects

Corporation Tax – Future Strategy



- Dependence on regime: strategic vulnerability
 - Falling tax rates elsewhere (UK 20%)
- Reforming regime
 - Where no (or little) cost to Ireland - reform
 - Keeping standard tax regime for “real” companies
 - Because of US tax law some US firms escape tax
 - Irish law modified to help deal with it (Budget 2014)
 - May or may not be costs to future reforms
- Reduce dependence on regime in future
 - Industrial policy needs to focus on domestic firms



Property Tax

- Commissions on Taxation – recommended it
 - Would widen tax base
- Politically unacceptable for 30 years
 - Attempted reintroduction reversed after elections
- However, don't waste a good crisis!
- Significant property tax now introduced
 - Unlikely to be reversed



Carbon Tax

- Climate Change requires serious action
- Carbon tax – most efficient instrument
 - EU 1992
- Emissions trading – a failure
 - Uncertain (and low) price: discourages investment
 - Grand-parenting: negative distributional effects
 - Very uncertain distributional effects
- Domestic carbon tax
- Move to EU carbon tax or at least carbon floor

Financial Transactions Tax

- Financial services under-taxed - VAT exempt
- Already significant tax on Irish equities
- Study of FTT implications for Ireland
 - Additional revenue BUT lose existing revenue.
 - Would see significant distortions
 - e.g. increased cost of hedging exchange risk and liquidity
 - Some loss of employment – probably not major
 - FTT is a pawn that could be sacrificed
 - A reformed FTT proposal might make sense

Income Tax

- 1980s – marginal rate c. 80% - big losses
- Reduced by 1990s – 2 rates.
- Boom years – reduced further
 - Many households taken out of tax system
- Problem today: need big increase in revenue
 - Marginal rates > 50%
 - Many exempt from income tax

Conclusions

- Economic Crisis
 - Distributional Effects
 - Opportunity / Challenge to reform
 - Government share of GDP in long run?
 - Need to rebuild tax base
 - Broadening base
 - Minimising marginal tax on labour income
 - Reduce dependence on low corporation tax