

# **BUILDING A NEW, BETTER AND FAIRER FUTURE**

Labour's Priorities for the Emergency Budget

**2<sup>nd</sup> April 2009**

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## **BACKGROUND**

On 9<sup>th</sup> January 2009, the Government published an *Addendum to the Irish Stability Programme Update* (the Addendum) which set aside the Budgetary tables and strategy contained in the Budget of October 2008. The Addendum set out a macroeconomic forecast for Ireland for the period 2009-2013, and reported an emerging General Government deficit of 10.5% of GDP for 2009, and of approximately 12% per annum for 2010-2012 in the absence of corrective measures. The Addendum further outlined a set of annual fiscal consolidations that would be required to bring the deficit below 3% of GDP by 2013.

These fiscal plans included a consolidation package of 1% of GDP for 2009, which was introduced in February 2009, the purpose of which was to bring the 2009 deficit down to 9.5% of GDP.

Notwithstanding the February package, following the publication of the February 2009 exchequer returns, the Government announced that it would not be in a position to meet its 9.5% target without further measures being taken. Accordingly, it announced that a Budget would be introduced in early April. That Budget is now set for 7<sup>th</sup> April.

Following the publication of the February Exchequer returns, the Government briefed opposition parties on emerging trends in the public finances. At that time, it believed that tax revenues in 2009 were likely to come in €2.5 -€3 billion below the target set in the Addendum of €37 billion. They have recently confirmed the €34 bn figure. In addition, it had identified some €1 - €1.5 bn in additional expenditure pressures, largely arising from higher unemployment and lower PRSI/health levy incomes<sup>1</sup>.

In announcing its intention to bring forward a budget, the Government indicated the priority it attached to meeting its target deficit of 9.5% of GDP, which it regarded as vital to the credibility of its fiscal strategy. This suggests that a fiscal consolidation of some €4.5 bn net, over 9 months, is contemplated. Subsequently, a figure of €6bn has been floated by at least one Government Minister. More recent comments have moved away from that target, but no alternative target has replaced it.

## **LACK OF ENGAGEMENT WITH THE LABOUR PARTY**

Following the announcement of its intention to bring in a new Budget, a briefing for Opposition parties was held in The Department of Finance on 4<sup>th</sup> March, and the Government invited co-operation from the Labour Party and other opposition parties.

The Labour Party engaged fully with the process established by Government, and submitted a range of information requests to the Department of Finance. We wish to record our appreciation to Department Officials for their courtesy and co-operation in supplying us with costings proposals<sup>2</sup>. It soon became clear, however, that the Government was not serious about constructive engagement with the Labour Party. A wide range of information was not provided to the Labour Party, despite requests for same.

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<sup>1</sup> PRSI and the health levy are accounted for as negative expenditures, so when they go down, expenditure goes up.

<sup>2</sup> The costing of proposals for Political Parties does not imply Department of Finance support for those proposals.

Information that Labour sought, and was not given included:

- Multi-annual Macroeconomic forecasts for the Irish Economy
- Assessment of the macroeconomic implications of different fiscal policy scenarios
- Detailed information on the capital programme project pipeline
- Access to options papers from Department on spending reductions
- Access to the papers presented by Departments to the McCarthy Expenditure Review Group
- Access to advice from Revenue and Department of Finance on potential sources of Revenue.

In a letter dated 27<sup>th</sup> March, the facility for costing proposals was withdrawn.

A meeting with the Minister and officials took place on March 31<sup>st</sup>, but little progress was made.

This information is vital to the preparation of detailed budget proposals. It has been necessary to prepare this document in the absence of this information. The Government's unwillingness to engage with the Labour Party in any serious way is regrettable.

## **MACROECONOMIC FORECASTS**

The April Budget is being framed against a background of worsening forecasts for the performance of the Irish economy in 2009. The pace of change is such that the most recent published forecasts by the main forecasting institutions are no longer applicable, and each has indicated that they will be revised in forthcoming publications. While the Addendum projected a fall in GDP of 4.5% in 2009, recent statements from the Taoiseach and the Governor of the Central Bank suggest that a fall of 6% to 6.5% is now projected. We were not given access to the Department of Finance's macroeconomic forecasts that are being used to prepare the April Budget.

## SUMMARY OF CURRENT ECONOMIC POSITION

- The Irish economy is experiencing an unprecedented contraction in activity and a rapid rise in unemployment. Output may fall by some 6% in 2009. Tax revenues in 2009 are projected to be some 30% lower than in 2007. A fiscal deficit has opened up which is now projected to be at least 11.5% of GDP. This deficit is unsustainable, and a major fiscal correction is required.
- Fiscal policy must also have regard, however, to the impact that fiscal correction will have on activity and employment. An appropriate balance must be struck between the twin requirements to deal with the deficit in a credible fashion and to sustain activity and jobs. This means that a multi-annual approach is required.
- The appropriate target for policy is the structural deficit – that portion of the deficit that will not be eliminated by a return to economic growth on the back of global recovery. Economists at the ESRI estimate that the structural component of the deficit is in the range 6% to 8% of GDP. They argue that an appropriate Budget target would be to reduce the structural deficit by about half by the end of 2010.
- Following the publication of the February 2009 Exchequer Returns, the Government indicated that it intended to stick to its 9.5% of GDP deficit target. This implies a gross adjustment over the remainder of 2009 of €4.5 - €6 billion. Such an adjustment would constitute an attempt to almost halve the structural deficit in nine months, rather than over twenty-one months, and would constitute a fiscal shock on an unprecedented scale – amounting to at least 3.5% to 4.5% of GDP for the last three quarters of the year, coming on top of adjustments already amounting to 2.5%. This would pose a substantial risk of sending the economy into a downward spiral, with even greater destruction of jobs and businesses, and further contraction in tax revenues.
- A more appropriate fiscal policy is to target the reduction of the structural deficit by half – or some 4% of GDP - in 2009 and 2010, with further, but less severe reductions in 2011-2013. This is still a major fiscal consolidation. The first stage in this process would be a budget package of approximately €2.25bn in net full year terms in the April Budget. Given the impact that budget packages have on revenue buoyancy, this implies a gross full year target of €2.8bn.
- The composition of the adjustment package will be central to its success. The package adopted should have a strong focus on protecting existing jobs and creating new ones. Every job lost costs the exchequer some €20,000 in social welfare payments and taxes forgone. The budget package should include a number of initiatives to promote employment and re-training. Labour is proposing the transfer of the €1bn in fees paid by the banks for the Bank Guarantee to the National Training Fund to fund a range of initiatives over a number of years.
- This should be accompanied by robust Government action to drive down costs in sheltered sectors of the economy, both to enhance competitiveness and to protect family budgets, by a combination of regulation, competition and direct control of selected prices.

## **LABOUR'S BUDGET STRATEGY**

### **How much of an Adjustment in 2009 is prudent?**

In early March the Government indicated its intention to bring in a budget that would yield approximately €4.5bn, net, over nine months, suggesting that an adjustment of approximately 3.5%-4.5% of GDP for the last three quarters of the year was contemplated. Later a figure of €6bn was floated, which if implemented would be equivalent to 4.5% -5.5% of GDP for the same period. This comes on top of an adjustment of 1.5% contained in the October Budget and an adjustment of approximately 1% of GDP implemented in February 2009.

The Government's originally stated intentions, therefore, would mean that over a period of three months, a total fiscal adjustment of approximately 6% - 8% of GDP would be imposed on the Irish economy for the final three quarters of 2009.

We cannot find any precedent for a fiscal adjustment on this scale in an advanced economy.

International literature on fiscal adjustments, for example, defines a large adjustment as one that exceeds 2% of GDP. The total adjustment being contemplated for Ireland would be at least three times that scale.

In making a judgment on the appropriate size of any fiscal consolidation, a number of factors must be weighed and assessed. The main argument for further consolidation at this stage is the importance of maintaining Ireland's credibility in international bond markets, and Government pronouncements attached strong importance to achieving the 9.5% of GDP deficit target as a central element in maintaining its credibility. There has since been some retreat from that position.

Headline indicators of creditworthiness, such as the 10 year bund spread and credit default swap rates, undoubtedly point to Ireland's reputation having been badly damaged. The Irish Government Bond market, however, is small and illiquid, and is more likely to experience significant adverse price movements as a result of relatively small trades, including speculative trades.

This can be illustrated by the fact that while Ireland's credit-rating has fallen, its bonds have been trading at levels worse than Italy and Greece, which have much lower credit ratings (A+ and A- respectively from S&P).

The recent issuance of €4bn in three year bonds at 4.1%, for example, and a more limited issue of 10-year paper, has demonstrated a capacity to raise funds. Although, the cost of this borrowing is now among the highest in the Eurozone, and while this is a serious concern, low Euro-wide interest rates mean that the cost of funds is close to the average cost for recent years.

It is clear that the issue of credibility cannot be reduced to the deficit target for a single year. A credible multi-annual deficit reduction strategy is required. Implementing it also requires a credible Government

In addition to the Government's own deficit, the banking guarantee has imposed a large contingent liability on the public finances, which it is difficult for the markets to quantify, and which is a source of on-going uncertainty. While a range of estimates of the scale of bad debts in the banking system is starting to emerge, they are still shrouded in uncertainty, are less well understood outside Ireland, and are dependent

on the performance of the economy in the next few years. At the same time, the Government has failed to deal with the banking crisis in a convincing fashion. There has been no willingness to insist on regime change at board level and the pace of reform in regulation and control of the banking system has been slow. This has added to the perceived risk of the Banking Guarantee.

International investors will also have regard to the capacity of the economy to return to economic growth. Further deterioration in macroeconomic performance will worsen the perception of the banking crisis, but also the capacity of the Government to raise revenues in coming years. The deeper the recession, the more firms and businesses will be lost, the more human capital will be eroded, and the longer it will take for Ireland to resume a path of growth and employment expansion.

The arguments in respect of credibility, therefore cannot be reduced to the deficit target for a single year.

Forecasts for the Irish economy suggest that GNP will fall by approximately 6% in 2009. The numbers on the live register have increased by 87.5% in the last year, and the standardised unemployment rate has climbed to 11% in March. Consumer confidence, as measured by the ESRI confidence indicators, is extremely low, and retail sales in January 2008 were 8% lower than in January 2007 (excluding motor sales). The Consumer Price Index shows a fall in the annual rate of inflation from 5.0% in March 2008 to -1.7% in February 2009, and further substantial price falls are anticipated. Trade figures for the first 11 months of 2008 show a fall in imports of 10%. These are all indicators of a deep economic downturn, and of an extremely fragile economy. In particular, indicators of private sector domestic demand are extremely weak.

While the rapid climb in the savings rate may suggest that consumers have anticipated increases in taxation, and while the design of any budget package should seek to minimise the immediate impact on domestic demand, nonetheless an excessively large fiscal consolidation poses substantial risks. Neither does the literature on non-Keynesian effects present a tested guide for policy makers which reliably diminishes the risks of a consolidation on this scale. In particular, Irish membership of the Eurozone fundamentally changes the macroeconomic setting when comparing the present crisis to that of the late 1980s, and closes off several of the main channels through which 'expansionary fiscal contraction' or non-Keynesian effects, might be expected to occur.

Even in terms of maintaining international credibility, rigid adherence to the 9.5% target for 2009, and a budget constructed around it, presents a risk of substantial further damage being done to the economy, and further adjustment packages being needed during 2009 as the Government chases a moving target in a downward spiral. A budget package of €4.5bn (or €6bn) would pose a major risk to the Irish economy, in the short and medium term, which could only be rationally contemplated in the face of an immediate sovereign default or 'funding-stop'. Such conditions do not exist.

## Targeting the Structural Deficit

A more appropriate budgetary strategy, as proposed by economists at the ESRI, is to target the reduction of the structural deficit. This refers to the portion of the fiscal deficit that will not be eliminated by an Irish recovery taking place on the back of improvements in global economic conditions. While a large proportion of the deficit is cyclical, the ESRI estimate that more than half is not. Rather it relates to the fall in revenues that followed the collapse of the Irish property bubble.

The April budget should be couched in terms of a medium term strategy to eliminate the structural deficit. It should provide more detail on the multi-annual programme than is the normal practice in Irish budgets. This would make an important contribution to Ireland's credibility. At the same time Ireland must make a major shift in banking policy, and demonstrate a willingness to make hard decisions in that area.

While further fiscal adjustment will have a negative impact on the economy, difficult decisions cannot be postponed. The April Budget will have to begin the work of bringing down the structural deficit, and make it clear that the task of reducing it will be frontloaded. This is a regrettable necessity that follows from a period of gross economic mismanagement.

The ESRI recommend the reduction of the structural deficit by about half in 2009 and 2010. They estimate the structural deficit to be approximately 6%-8% of GDP, or €10.4 – €13.8 bn.

Bearing in mind the severe adjustments that have already been made in 2009, the appropriate target for the April Budget is of the order of €2.25 billion in net full year terms. Given the negative impact that fiscal adjustment is likely to have on the economy, the gross adjustment must be higher. This implies that measures totalling €2.8bn in gross full year terms are required in April.

These figures are specified in full-year terms. The cash take in 2009 will be lower, partly because the decisions are being taken in April, and partly because of timing issues. Since the policy objective is to reduce the structural deficit over a period of years, the appropriate focus of attention is the full-year yield from whatever measures are taken. The composition of the April package, however, should have regard to this cash flow issue.

## Objectives of Labour's Budget Package

The Budget package to be introduced in April should be designed in accordance with the following objectives

- **JOBS** – The Budget should seek to protect jobs and create employment. This can be achieved by presenting a credible path to reduction of the structural deficit, in a manner which minimises further short-term damage to the fabric of the economy. The Budget should also have a strong focus on skills and training for those who are losing their jobs. Where revenue has to be raised, or expenditure reduced, the focus should be on minimising the impact on productive activity. Every job lost in the Irish economy costs €20,000 in terms of social welfare payments and tax foregone.
- **FAIRNESS** – it is vital that the Government demonstrate that fiscal stabilisation will be achieved fairly, with the largest contribution coming from

the wealthiest sectors of society, and with real determination being shown to protect family budgets, and those on low incomes.

- **STRUCURAL ADJUSTMENT** – it is vital that Ireland begin the transition back to export-led growth, with a strong focus on short-term and long-term competitiveness. The fiscal measures adopted should promote, and not hinder that objective. Tax measures should, in so far as possible, be consistent with sound taxation principals and with medium-term tax reform objectives. Curtailment of public expenditure should, in so far as possible, be aligned with the objective of obtaining better long-term value for money.

## LABOUR MARKET MEASURES

### Protecting existing jobs and encouraging the creation of new jobs

The Labour Party is proposing a range of measures that can be taken to protect and create employment.

- A **PRSI exemption scheme** should be put in place that would exempt employers from paying employer's PRSI for 18 months, where they employ a person who has been unemployed for more than 6 months, and where they demonstrate clearly that they are creating a new job. The Back to Work Enterprise Allowance should be revised so that unemployed people can avail of the scheme after three months of losing their job (currently 2 years)
- In order to fund jobs and skills initiatives, and for pre-school education, the **fees paid by the banks for the Guarantee scheme**, which will total **€1billion**, which is currently being held in a 'suspense' account in the Central Bank, should be transferred to the **National Training Fund**
- The existing National Development Plan is effectively redundant. **A new National Development Plan** should be drawn up with immediate priority being given to programmes with the greatest impact on job protection or job creation. These would include school buildings and critical infrastructure such as broadband
- Private sector employers should be incentivised to offer **career breaks** to facilitate parents and carers and to improve job opportunities for other workers. There should be legal protection provided to employees to ensure they can return to their jobs and to safeguard pension and social security entitlements.
- Expanding exports and employment depends critically on the **cost base in the non-traded sector**. It is vital that, where the non-traded sector is sheltered, or not subject to adequate competition, that downward pressure is exerted on prices. This must come from a combination of competition policy, more effective regulation, and in limited cases, direct price controls.

### Ireland needs a skills revolution

The long-run growth of the economy requires a substantial up-skilling of the workforce. Moreover, in order to avoid the emergence of a substantial problem of long-term unemployment as a result of the recent rise in unemployment, it is necessary that people who are currently losing their jobs, have the opportunity to retrain and acquire new skills.

- A **Graduate Placement Scheme** should be put in place which would allow new graduates to retain social welfare benefits while working in approved job placements. This is important, since a period of unemployment early in person's career can have long-run implications for their human capital and earning potential.
- Greatly expanded provision of intensive **literacy programmes** is required.

- A **'tax-back' scheme for people who have lost their jobs** and wish to return to third level should be introduced.
- The cap on **Further Education Places should be raised**, the number of places on VTOS expanded, and eligibility for the Back to Education Allowance should be extended.

The total cost of jobs and training initiatives comes to approximately €233m in a full year.

### **Demonstrating Fairness through Social Solidarity**

It is vital that the fiscal consolidation is demonstrably fair, and that society is not seen to abandon its long-term aspiration to social progress. Specific measures that should be taken include:

- A major effort to provide **education and training opportunities** for those without work
- A commitment to **progressively introduce free pre-school education** for one year for all children in the year before primary school, both as an investment in the future of our children, and as a source of employment growth. The current cost is estimated to be approximately €150m in a full year
- Restoration of the **school book grant**, and the **restoration of special needs teachers**, at an estimated cost of €15m.
- Provision of the **cervical cancer vaccine for all teenage girls**, at an estimated cost of €16m. The **Cystic Fibrosis Treatment Centre** should also be fast-tracked. Earmarked funding should be made available for these two projects from the proceeds of a new tax on text-messages.

## **PUBLIC EXPENDITURE: DOING MORE WITH LESS**

Labour has argued for many years that far greater value-for-money can and should be obtained from public spending, and we have advanced numerous proposals on how this could be achieved. Reform in this area can no longer be delayed.

The present fiscal crisis means that the total level of public expenditure will be severely constrained for several years to come as the structural deficit is reduced and eliminated. At the same time, there will be pressures on expenditure arising from higher unemployment. Irish society, cannot, however, stand still. New needs will arise, and new priorities will emerge. This means that structure of public spending will have to change to deliver better services with severely limited resources: doing more with less. This will require quite fundamental changes in the way that public services are organised and delivered.

### **Public Sector Pay and Staffing Policies**

Achieving better value for money requires quite significant change in policies pertaining to pay and staffing.

- The Government has already announced its decision not to pay the 2009 and 2010 instalments of the T16 pay awards. This will yield approximately €990m in 2010 and €1.2bn in 2011.
- In addition, the public sector pension levy represents a substantial wage cut for all affected public sector employees.

While it is regrettable that these measures were not achieved through negotiation, it is clear that significant reductions are necessary in the projected public sector pay bill. The pension levy as introduced, however, is iniquitous, and presents an unfair burden on low paid civil servants. It was also introduced as part of a package which did not seek contributions from other sectors of society.

- Ultimately, it would be desirable that the pension levy be incorporated in the existing pension contribution system. In the short term a more equitable system would be to exempt those on low incomes.

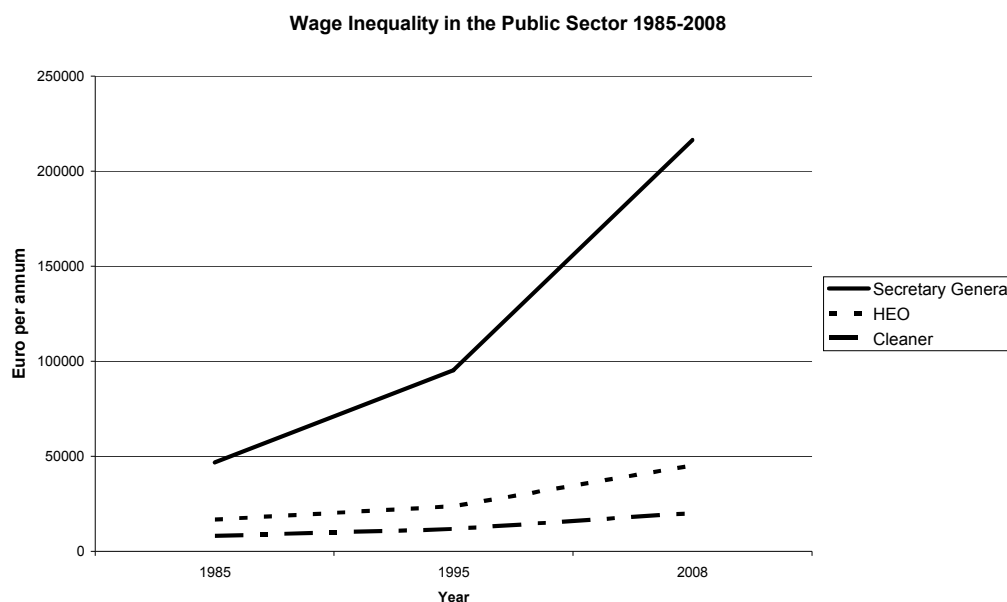
This measure should be offset by significant revisions in the structure of gross pay. Since the late 1980s, there has been a substantial widening of wage dispersion in the public sector.

Whereas in 1985, a Secretary General earned nearly six times more than a cleaner, by 2008 this ratio was nearly 11. This trend should be reversed, particularly given the financial emergency.

- We therefore propose an earnings cap of €200,000 in the public sector, and the suspension of the system of performance related pay for higher civil servants. This would yield approximately €100m and €3m respectively.

Further reductions in the public sector pay bill however must also be achieved.

- Labour has already published detailed proposals on reform of the HSE, including proposals for a redundancy package to remove approximately 1000 staff in the management grades. This could have an up-front cost, but would yield significant on-going cost savings, depending on the structure of the scheme. More importantly, however, it would contribute to more effective management of the €12.8bn HSE budget. Before committing to redundancy payments, re-deployment options should be examined.



Blanket recruitment embargoes are a crude instrument which can have an undue impact on service provision, and while it may be effective in containing short-term costs can lead to longer term problems and costs.

More imaginative approaches, however, could be more effective. These include

- Far greater **mobility of staff within the public sector**, so that key posts can be filled by transferring staff from low to high priority areas. With that kind of flexibility in place, payroll costs can also be reduced by greater incentives to part-time working and career breaks.
- The implementation of this scheme should be complemented by **full flexibility of movement between all branches of the public and civil service** for relevant grades. This would mean that staff in key posts availing of the career break option could be replaced by staff working in areas of lower priority.
- While recruitment to the public service may be limited for some time, the 'more with less' principle means that closed recruitment policies must be ended. **Open recruitment to all public service posts should now be introduced.** Every promotional opportunity in the public sector should be advertised for open competition.

- The Government should introduce a scheme that encourages public servants to take **career breaks or work part time**, by limiting the loss of pension entitlements that would result to the individual. Hence a person would be able to go off the pay roll for a set period, or work part-time, while continuing to accrue pension rights for a limited period.

## Non-Wage Spending

The Government has already reduced current expenditure in 2009 by some €4bn. Further consolidation, however, is required. Rather than adopt a 'slash and burn' approach, the period between now and the 2010 Budget should be used to undertake a root and branch review of current Government spending. The Report of the McCarthy review group should be a central part of that process.

- Given the absolute necessity to achieve better value for money, the **decentralisation programme should be abandoned**. This would yield approximately €25m in 2009 and €57m in 2010.
- Government should review its rent payments, and **seek downward revision in rents paid by all public sector bodies, including schools**. Rent payments under social welfare schemes should be reviewed, and a retention tax should be applied where direct payment is made to landlords.

The Houses of the Oireachtas and the holders of Public Office must give a lead in this drive to do 'more with less'.

- The number of **civil servants working on constituency matters in the offices of Ministers and Ministers of State** should be reduced to two per Minister.
- The **number of Junior Ministers** should be limited to 15, however allocated (which would yield approximately €3 million in a full year).
- The number of **Oireachtas committees** should be similarly reduced.
- **Payment to Oireachtas members for acting as Chairs, Vice-Chairs and Convenors of Committees should be abolished**. This work should be seen as part of routine parliamentary duties.
- **Ministerial pensions** should not be payable to sitting TDs or Senators.
- As part of the drive to achieve 'more with less', the **number of Dail sitting days should be increased by 50 per cent**.
- Oireachtas **expenses should be vouched**.
- **Payments made to independent Deputies and Senators** under the Leader's Allowance must be accounted for in the same manner as for political parties.

## REORGANISING CAPITAL EXPENDITURE; GETTING MORE FOR LESS

The 'more with less' approach must also be applied to the area of capital expenditure.

- In the short-run, **falling tender prices** in the construction and civil engineering sector should be used to reduce the cost of projects. An initial target of €1bn should be set for such cost reductions in 2010 and is readily achievable.

The limited co-operation offered by the Government to the Labour Party, however, revealed an astonishingly incoherent approach to capital expenditure. The Government was not in a position to provide us a document outlining the capital programme pipeline on a project by project basis. Such information is a basic requirement for effective strategic management of what is a €9 billion annual programme.

- What is required is a fundamental **overhaul of the capital programme**. This should include a new framework document or National Development Plan (NDP). It should be accompanied by greatly improved management, of the programme itself and of individual projects.
- We must explore innovative possibilities for maintaining high rates of capital investment to remove Ireland's remaining infrastructure deficit, restore competitiveness and keep people gainfully employed. In the immediate term, those **projects which are advanced to the point of being 'shovel ready' and highly labour intensive should be prioritised**.

The traditional procurement model of up-front payment has been complemented to a large degree in recent times by Public Private Partnerships. While some PPP structures have been questionable from the point of view of securing value for money for the taxpayer, they can be valuable tools in cash-flow management for the exchequer. While the bar should certainly be raised in terms of designing cost-effective PPPs, the PPP model of delivering public infrastructure is likely to remain a key component of public service delivery in the years ahead.

Allied to the crisis in the public finances, the global credit crunch continues to weigh heavily against the ability of financial institutions to generate significant new lending streams. With de-leveraging likely to remain a challenge for some time to come, the ability of private sector operators to finance their end of a PPP, particularly during the risky construction and ramp-up phases, has been seriously compromised.

In the short-term, the credit crunch is set to limit the viability of many PPP projects while over the longer term, such projections will remain subject to the vagaries of the prevailing lending environment.

- To remove this uncertainty, and to retain profit from public infrastructure delivery within the public sphere, the Labour Party proposes the **establishment of a National Development Bank (NDB)** to fund and deliver infrastructure projects. Such an agency would be set up on a commercial semi-state basis with a mandate aligned with the public interest.

## TAXATION: FAIRNESS AND REFORM

While there is an immediate need to raise additional revenues, tax policy decisions in the April Budget should also have regard to the principles that underlie longer term reform. These include the need for a more progressive tax system, and one which is more broadly based.

The Commission on Taxation, which was originally proposed by the Labour Party, is due to report this autumn. In the meantime, however, a number of policy decisions must be made in the April Budget. These should seek to avoid imposing taxes on those who can least afford to pay them, which also minimises the impact on economic activity.

### Normalisation of the Property Market

For years, the Labour Party has been arguing that housing is a basic human need, and should be treated as such, rather than as a vehicle for investment and/or speculation.

- The interest subsidy afforded to landlords is an **unjustified subsidy for investment in housing assets**, that has driven speculation in housing, and should be phased out. Ultimately, this would yield approximately €800m in a full year.
- This change should be accompanied by a solid commitment to a full two-year **protection from repossession for family homes**, where the mortgage payer makes an honest effort to pay what they can realistically afford. There is also an urgent need to reform Mortgage Interest Supplement to ensure that it does not act as a disincentive to work or family formation and so that more people can qualify.

### Capital Taxes

Ireland's system of capital taxation provides for a fundamentally unfair treatment of unearned versus earned income. Capital gains and capital acquisitions are taxed at a single rate of 22%, when a person on a modest or average wage faces a marginal rate of 41%. This difference also opens up a major avenue for tax-planning, where wage income is re-routed and re-categorised as a capital gain.

- The rate of **capital acquisitions tax** should be increased to 28%.
- **The threshold for Category A** should be reduced to €250,000.

These measures would yield approximately €100m in a full year.

## Tax Reliefs

For too long, the Irish tax code has allowed high earners to avoid paying a fair and reasonable rate of tax by providing a range of property-related tax schemes. While some of these have been closed down, the Government has kept several open, and has exempted some schemes from its *de minimus* requirement. In the present financial emergency, this situation is not tolerable.

- We propose the **immediate ending of relief for all property-related schemes**. This would yield approximately €508m in a full year. We further believe that immediate closure of these schemes, and ending of reliefs under them, is both legal and justifiable.
- In order to prevent the re-emergence of such schemes in the future, we propose that an **minimum effective tax rate of 30%** should be applicable to all incomes over €250,000.
- While the artists' exemption has value to our society, it was never intended to support artists earning very high incomes. **A cap should also be placed in the artists' exemption at €75,000**, with a facility for averaging incomes over a number of years. This would yield approximately €10m in a full year.
- The **tax relief on the donation of heritage items should also be abolished**, which would yield approximately €5m in a full year.
- The **tax relief on trade union subscriptions should be abolished**, yielding approximately €11 million in a full year.

## Income Tax and Levies

There are considerable practical difficulties with changing the income tax code in the middle of the year. The Government does, however, have the option of changing the levy system, and pre-announcing changes to the income tax code for 2010.

- Given the visibility of the income tax code, it is particularly important that the rate structure is demonstrably fair and progressive. For 2010, the Government should introduce a **third rate of income tax for the highest earners, set at 48% on single incomes over €100,000**. This would yield approximately €435 million in a full year.

## Tax Exiles

There are approximately 6,000 individuals living in Ireland who are regarded as non-resident for tax purposes. This allows them to avoid paying a variety of taxes, such as capital gains tax on disposals other than on land and buildings. The liberality of the tax exile regime undermines the sense of collective solidarity and fairness that must underpin the tax system.

- While there are some circumstances in which a person can be legitimately non-resident, the existing system should be greatly restricted. This can be achieved by restricting the number of days that a person can spend in Ireland without losing their non-resident status.
- Restrictions should also be imposed on temporary periods of non-residency.
- The Budget should introduce a requirement that a tax clearance certificate be produced with passport applications

## Carbon Tax

The April Budget should support structural changes in the Irish economy, including a reduction in the carbon intensity of economic activity.

- The long-promised **Carbon Tax should now be implemented at a rate of €20 per tonne**. This would not apply to activities already covered by the Emissions Trading Scheme. This tax would yield approximately €440m in a full year.
- Part of this revenue stream should be earmarked for **the Warmer Homes Scheme** for the insulation and retrofitting of homes. This will also allow more people to gain employment in this sector.

## Excise Duties

While the appropriate target for policy is reducing the structural deficit, rather than on the deficit target for any one year, regard must be had to the requirement to raise revenues in the remainder of 2009. This means that there is no alternative but to increase excise duties.

- A package of **excise measures totally approximately €400 million** in a full year should be introduced. (Note: We do not propose to outline the exact details as this may lead to loss of revenue through pre-emptive sales).

## Text Messages Tax

- A **tax of 1c per text message** should be introduced. This would yield approximately €91m in a full year. The proceeds from this tax should be earmarked initially to help fund youth related health programmes such as the cervical cancer vaccine and the Cystic Fibrosis centre.

## **Pension Subsidies**

We understand that the whole area of Pension Subsidies is being examined in detail by the Commission on Taxation. **The Government should set a short-term target of reducing the total relief by approximately €300 in full year terms** in the April Budget.

The existing system of tax relief for pensions is expensive and heavily distorted in favour of those who pay tax at the higher rate. The most recent estimate suggests that tax subsidies for pensions totalled €2.9 billion in 2006. It has been estimated that the top 20 per cent of earners receive around two-thirds of all pension-related tax subsidies, while the bottom 20 per cent received just 1.1 per cent (employees) and 0.2 per cent (self-employed). In particular, those who are in a position to have a small self-administered pension scheme have been able to avoid paying tax on large swathes of income. In the present financial emergency, this is unsustainable.

We regret that the Department of Finance were not able to cost a number of options for reform in this area. These included restrictions on the amount of relief that can be claimed on employers' contributions, and the imposition of a short-term levy on the funds in Small Self-administered pension schemes.

## **Limitation of tax refunds**

The Irish tax code includes quite generous facilities for capital losses to be offset against income in previous and subsequent years. Given the rapid downturn in the economy, this poses the threat of substantial tax refunds having to be paid out, particularly to those involved in property speculation.

- There is an urgent need to review these rules in order to protect the exchequer.

## **Revenue Investigations**

In recent years, Revenue investigations have yielded a considerable return to the exchequer.

- The present **investigation into Trusts** should be vigorously pursued and the Revenue should seek payments on instalment at an early date.