

Presentation at Irish Taxation Institute “The Big Tax Debate”

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A Look at the Books

- December 2009 budget projections for 2010 and 2011, minus the assumed 2011 adjustments (in billions). Not counting bank recap costs in 2010.

	2010	2011
Deficit	18.7	20.0
GDP	160.9	169.9
Def/GDP	11.6%	11.8%

Revised GDP Projection

- Keeping budget projections but incorporating latest Central Bank forecasts for GDP:

	2010	2011
Deficit	18.7	20.0
GDP	157.0	162.0
Def/GDP	11.9%	12.4%

Lower Projected Tax Revenues

- Lowering 2011 tax revenues by a €1 billion due to growth in GDP being €4 billion below projection.

	2010	2011
Deficit	18.7	21.0
GDP	157.0	162.0
Def/GDP	11.9%	13.0%

Cash Flow Effect of Bank Recap

- Promissory note payments of (my guess) €2 billion per year. Not counted in GGD but still has to be borrowed.

	2010	2011
Effective Deficit	18.7	23.0
GDP	157.0	162.0
Def/GDP	11.9%	14.2%

Large Adjustment Just to Keep on Track

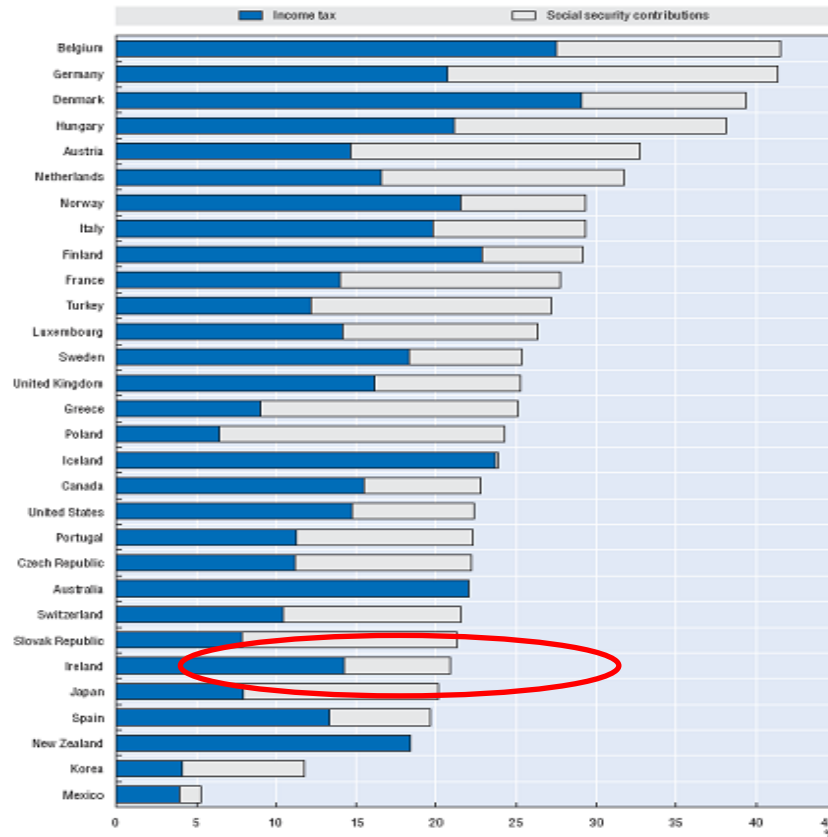
- Based on Brussels-consistent deficit, if the starting point before adjustments is 13%, then sticking to previous target of 10% in 2011 requires about €5 billion in adjustments.
- Including promissory note payments, even a €5 billion adjustment wouldn't look much better than standing still.
- Hence the serious tones adopted in recent weeks in relation to the budget.

Won't Cuts Sink the Economy?

- Fiscal contraction will be a drag on growth.
- But fiscal multipliers in small open economies are small, so there will be limits to this drag.
- Some people believe there are big capital spending projects that we could do that would pay for themselves and boost growth.
- I'm not so sure about this and financial markets don't believe it: They simply would not lend to us to undertake a program like this.

Employee Tax and PRSI Contributions

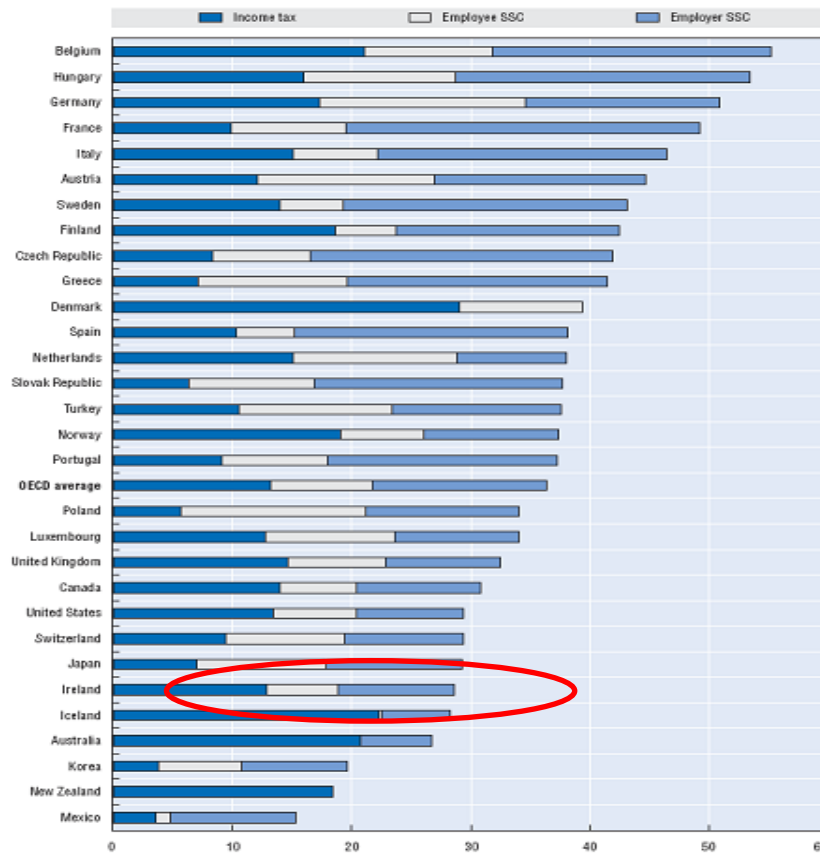
Figure 0.2. Percentage of gross wage earnings paid in income tax and employee social security contributions 2009^{1,2}



1. Countries ranked by decreasing tax burden.
 2. Single individuals without children at the income level of the average worker.
 StatLink <http://dx.doi.org/10.1787/828847316603>

Employee Plus Employers Tax Burden

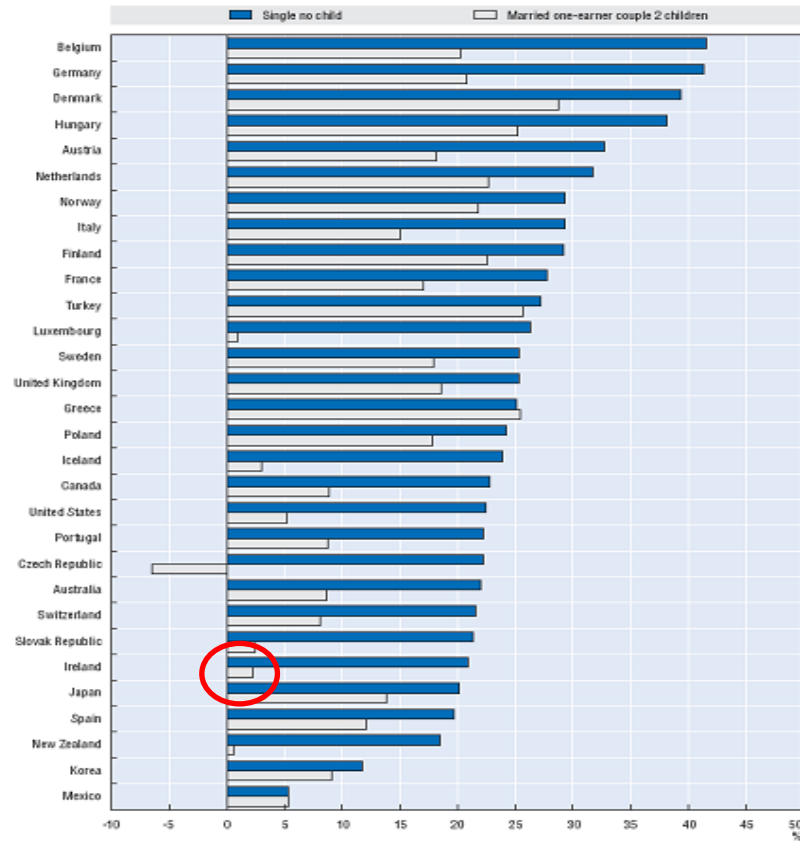
Figure 0.1. Income tax plus employee and employer social security contributions
As % of labour costs, 2009¹



1. Single individual without children at the income level of the average worker.

Employee Tax Burden Minus Cash Benefits

Figure 0.3. **Income tax plus employee contributions less cash benefits, by family type**
As % of gross wage earnings, 2009^{1, 2}



1. Countries ranked by decreasing rates for single taxpayer without children.
2. Corresponds to Table 4, column 2 and 5.

A Highly Progressive Tax System

- Average income plus PRSI tax rates for single people at selected percentages of average wage:

	67%	100%	167%
Ireland	14.2	20.9	32.5
EU-15	24.2	29.2	36.1
OECD	21.1	25.6	31.4

Effect of Generous Child Benefit

- Average income plus PRSI tax rates minus cash benefits for married couple, two kids, one earner on average wage and **second earner** at selected percentages of average wage:

	0%	33%	67%
Ireland	2.2	4.9	11.1
EU-15	16.7	18.4	22.2
OECD	13.3	16.0	19.5

High Marginal Tax Rates

- Average income plus PRSI tax rates for single people at selected percentages of average wage:

	67%	100%	167%
Ireland	35.9	54.8	54.8
EU-15	50.1	52.1	54.5
OECD	43.0	45.9	48.0

Raising Income Taxes: How to Do It?

- Despite low tax take, combined marginal tax rates are very high (55%) at moderate income levels.
- Broaden tax base rather than raise all rates:
 - Cut back on very large exemption from tax.
 - Limit tax breaks (Commission on Taxation)
 - Raise the basic rate.
 - But perhaps also raise ceiling for top rate.
- Universal social contribution has an appeal (simplifies tax system, raises a lot of money) but government should consider an exemption for low-earners (work incentives an important issue).

Property Tax

- Suggestion: announce introduction of property tax in 2012 with graduated exemptions for those who have paid stamp duty in the past 10 years.
- Abolish stamp duty immediately:
 - Most potential home-buyers would prefer to pay 30 years of property tax than to come up with the huge initial payments required for stamp duty.
 - Reduces incentive to delay purchase and not waste first-time-buyers exemption on a starter home.

Expenditure Side Issues

Three issues that need to be dealt with in four-year plan:

- 1. Efficiency savings:** Lots of talk about efficiency-driven gains but what is the potential? How much can be realistically expected?
- 2. Capital spending program:** Perhaps treated as an overly sacred cow. Projects such as Metro probably have to go.
- 3. Universality** (child benefit, other benefits for the elderly.)