Hibernia Forum

Proposals for Budget 2019

The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else - **Fredric Bastiat**

Summary and key points

- **The economy has recovered strongly since the crash (page 3).**
- **There is no justification whatsoever for increasing overall tax levels (page 4).**
- **Proposal 1 – Appoint a dedicated Minister for Public Expenditure and Reform (page 5).**
- **Proposal 2 – Simplify the tax system (page 6).**
- **Proposal 3 – Reduce health spending to the EU average (page 7).**
- **Proposal 4 – End welfare dependency as a viable long-term career choice (page 8).**

Background

The economy has recovered strongly since the crash

Regardless of the measure one uses to quantify economic output, there can be no doubt but that the Irish economy has recovered strongly since the crash experienced between 2008 and 2012.

Yet there have been several media reports suggesting the government is considering increasing levels of income taxation and/or social contributions

According to *The Irish Independent*[1], Regina Doherty's officials are suggesting that workers should pay hundreds of euro more in PRSI in order to help pay for welfare benefits.

And *The Irish Times*[2] reported that a new, higher, 43% rate of income tax could generate an additional €433 million annually for the government.

1“Tax plan to hit squeezed middle for extra €250”, Charlie Weston, August 18th, 2018. Irish Independent. Available at: https://www.independent.ie/business/personal-finance/tax-plan-to-hit-squeezed-middle-for-extra-250-37227765.html Accessed August 26th 2018.

2“Budget 2019: New 43% income tax rate could raise €433m”, Fiona Reddan, August 21st, 2018. Irish Times. Available at: https://www.irishtimes.com/business/economy/budget-2019-new-43-income-tax-rate-could-raise-433m-1.3602449 Accessed August 26th 2018.

There is no justification whatsoever for increasing overall tax levels

Tax revenues are already growing strongly

Government data[3] indicates that, in the seven months ended July 31st, 2018, tax revenues were running 6.7% higher than one year earlier. With continued strong economic growth forecast,

APPENDIX II: ANALYTICAL EXCHEQUER STATEMENT – END-JULY 2018

€m	End-July 2018 Outturn	End-July 2018 Profile	Outturn v Profile €m	Outturn v Profile %	End-July 2017 Outturn	Y-on-Y €m	Y-on-Y %
REVENUE							
1. Tax Revenue and Appropriations-in-Aid (A-in-As)	36,470	36,281	189	0.5%	34,337	2,133	6.2%
- Tax Revenue	***29,689***	***29,515***	***174***	***0.6%***	***27,812***	***1,877***	***6.7%***
Income tax	*11,447*	*11,434*	*13*	*0.1%*	*10,720*	*727*	*6.8%*
VAT	*9,187*	*9,176*	*11*	*0.1%*	*8,793*	*394*	*4.5%*
Excise duties	*2,997*	*3,199*	*-203*	*-6.3%*	*3,322*	*-326*	*-9.8%*
Corporation tax	*4,183*	*3,805*	*378*	*9.9%*	*3,606*	*577*	*16.0%*
Stamp duties	*759*	*811*	*-52*	*-6.4%*	*573*	*186*	*32.5%*
Motor Tax	*607*	*615*	*-8*	*-1.3%*	*0*	*607*	*n/a*
Local Property tax	*0*	*0*	*0*	*n/a*	*320*	*-320*	*-100%*
Customs	*172*	*183*	*-11*	*-6.0%*	*183*	*-11*	*-5.8%*
Capital gains tax	*188*	*178*	*9*	*5.2%*	*158*	*30*	*18.9%*
Capital acquisitions tax	*116*	*114*	*3*	*2.4%*	*109*	*7*	*6.5%*
Other	*34*	*0*	*34*	*n/a*	*29*	*5*	*16.1%*

With continued strong economic growth forecast, there is no reason to expect this trend to reverse.

And there are structural factors which mean that tax revenues should grow faster than the underlying economy

The government benefits from a hidden increase in the average income tax rate every year. This is because, as incomes generally rise, the proportion that falls into the tax net rises as does the proportion subject to the higher rate of 40%. This helps explain why income tax receipts to the end of July were up 6.8% compared to a year ago even though wage growth of only 2.8% is expected this year, according to the Central Bank[4].

3Fiscal Monitor, July 2018, Department of Finance. Available at: https://www.finance.gov.ie/wp-content/uploads/2018/08/Fiscal_Monitor_2018_July.pdf Accessed August 26th 2018.
4Quarterly Bulletin, QB2 April 2018. Central Bank of Ireland. Available at: https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2018/quarterly-bulletin---qb2-2018.pdf?sfvrsn=4#page=8 Accessed August 26th 2018.

Proposal 1 – Appoint a dedicated Minister for Public Expenditure and Reform

If there is a problem in the public finances, it is not that tax revenues aren't growing fast enough but that government spending is growing too fast

The central problem in the national finances is that government spending is growing so fast. Current primary government expenditure[5] is rising at a rate of 6.9% per annum, even though inflation is less than one per cent.

EXPENDITURE							
1. Current Primary	**33,886**	**34,011**	**-124**	**-0.4%**	**31,707**	**2,179**	**6.9%**
- Gross Voted Current[1]	***32,079***	***32,004***	***74***	***0.2%***	***30,208***	***1,870***	***6.2%***
Employment Affairs and Social Protection	*11,627*	*11,625*	*1*	*0.0%*	*11,448*	*179*	*1.6%*
Health	*8,878*	*8,716*	*162*	*1.9%*	*8,242*	*636*	*7.7%*
Education and Skills	*5,338*	*5,300*	*37*	*0.7%*	*4,999*	*339*	*6.8%*
Other	*6,236*	*6,363*	*-127*	*-2.0%*	*5,520*	*717*	*13.0%*

This is ridiculous. For all of the panoply of spending control measures introduced following the financial crisis – the Fiscal Advisory Council, the Department of Public Expenditure and Reform, the Fiscal Compact – it seems that we're still stuck in the same old "when I have it, I spend it" philosophy first enunciated by Charlie McCreevy. Stern action is required!

DPER is failing at its core task

It is clear that under Minister Donohoe, the Department of Public Expenditure and Reform (DPER) is not doing what it is meant to do. Instead of limiting the growth in public expenditure, it is acquiescing in public spending that is out of control.

Why is DPER failing?

DPER managed to control public expenditure growth very effectively under previous ministers and in conditions where the economy was growing much more slowly and the pressure on government to spend was correspondingly larger.

Hibernia Forum is therefore pushed towards the conclusion that it is not the Department or its officials who are failing to adequately control spending but the Department's political head, Minister Paschal Donohoe.

Hibernia Forum therefore calls for the removal of Paschal Donohoe as Minister of Public Expenditure and Reform so that he can be replaced by a minister dedicated to the task of controlling public spending who won't be distracted by the responsibilities of another important ministry.

5Fiscal Monitor July 2018, op cit.

Proposal 2 – Simplify the tax system

The income tax system has become ridiculously complex

Ireland’s personal tax system is dizzyingly complex. There are three elements to our personal tax system – income tax, USC and PRSI – and they each have different entry points, bands and credits. In addition, we have two income tax rates, five USC rates and one main employee PRSI rate.

To complicate matters further, the definition of what constitutes income for PAYE purposes is not the same income for USC, and nor is it the same for PRSI. Employees are treated differently to the self-employed.

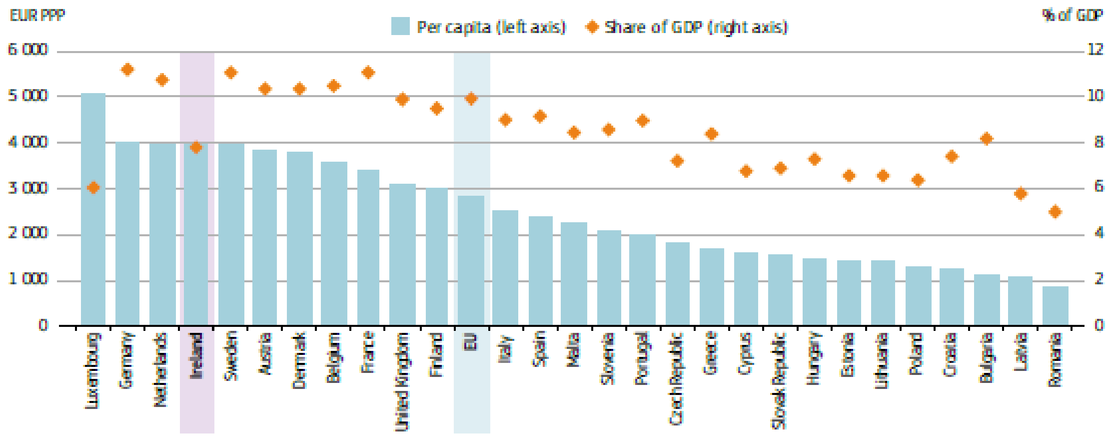
Hibernia Forum therefore calls for a simplification of the tax system. This can be achieved by (i) merging income tax and USC; (ii) having common definitions of what constitutes income for all state deductions.

Proposal 3 – Reduce health spending to the EU average

Contrary to the tone of much public debate, health spending in Ireland already significantly exceeds the EU average

According to the OECD[6], people in Ireland spent circa €4,000 per head on health on average in 2015. This was 40% more than the EU average, which was less than €3,000 per head.

Figure 6. Health expenditure per capita in Ireland is substantially above the EU average



Sources: OECD Health Statistics, Eurostat Database, WHO Global Health Expenditure Database (data refer to 2015).

By endorsing the Sláintecare report, the government is acquiescing in even more public spending on health

The Sláintecare report[7] proposes additional public spending to "implement transitional and legacy funding arrangements" of €3bn over six years.

Hibernia Forum calls for the setting of a high-level public goal to reduce Irish health spending per head of population to the EU average by 2028. This will require a very substantial focus by the Irish health system on internal control, efficiency and incentives. But, with a younger population than the EU average, it is a feasible objective.

6State of Health in the EU Ireland Country Health Profile 2017, OECD. Available at: https://ec.europa.eu/health/sites/health/files/state/docs/chp_ir_english.pdf Accessed August 26th 2018.
7Sláintecare Report, Oireachtas Committee on the Future of Healthcare, May 2017. Available at: https://webarchive.oireachtas.ie/parliament/media/committees/futureofhealthcare/slaintecare-report-may-2017.pdf Accessed August 26th 2018.

Proposal 4 – End welfare dependency as a viable long-term career choice

What the case of Margaret Cash illustrates

The case of Margaret Cash is someone whose case starkly illustrates the heavy welfare dependency culture in Ireland. The situation of Cash attracted much media attention after she had to stay overnight in Tallaght garda station with six of her children after emergency homelessness services were unable to find suitable accommodation. Former government special advisor Stephen Kearon has estimated how much Ms Cash may be receiving each year in direct payments from the state in respect of herself and her children. He arrived at a total of €51,746[8]. That comprises one parent family allowance (€10,296) plus qualified child allowance (€11,575), back to school allowances (€1,250), Christmas bonus (€358), housing assistance payment (€15,900), fuel allowance (€608) and child benefit (€11,760).

Social Welfare in Ireland 2018 - @skearon			
Single mother with seven children in Dublin (5 in school)			
	Weekly	**Monthly**	**Annual**
One Parent Family Allowance	€198	€858	€10,296
Qualifed Child Allowance	€223	€965	€11,575
Back to school allowances	€24.04	€104	€1,250
Christmas Bonus (85% weekly payment)	€6.88	€30	€358
HAP per Month (€1,325)	€306	€1,325	€15,900
Fuel Allowance (27 weeks @ €22.50)	€11.68	€51	€608
Child Benefit €140 per month per child	€226	€980	€11,760
TOTAL	**€995**	**€4,312**	**€51,746**

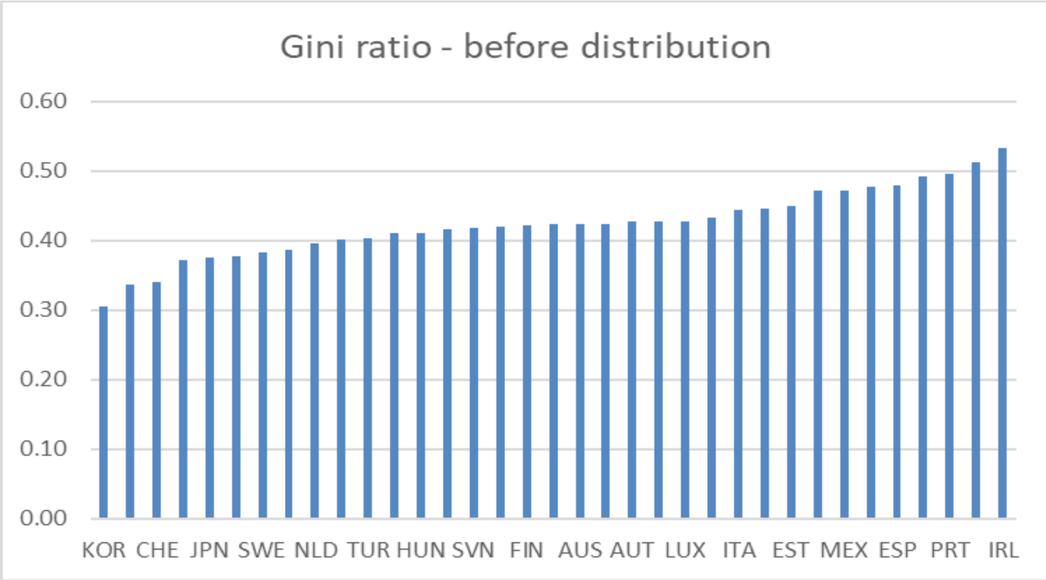
If you go onto the Income Tax Calculator on PwC's website[9], you can ascertain that a single person would have to earn a gross income more than €80,000 to generate an after-tax income of €51,747. You can then ascertain from Central Statistics Office data that in 2016, the most recent year for which data is available, less than 10% of the working population earned more than €80,000 before deductions. In other words, Ms Cash takes home more money than 90% of the working population. That is crazy.

The key facts about equality in Ireland

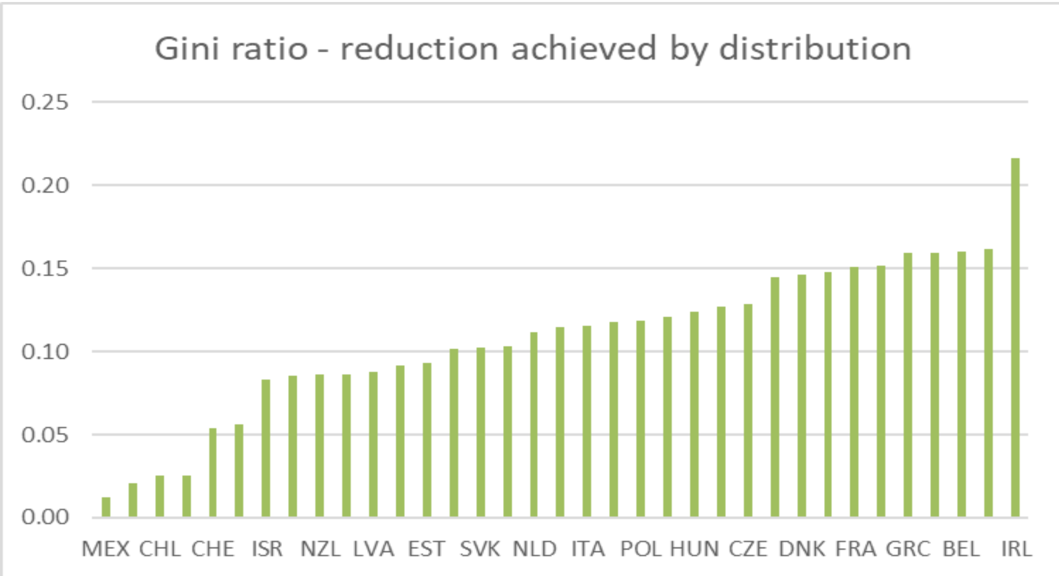
The key facts concerning equality in Ireland are relatively straightforward:

1. According to the OECD[10], pre-distribution (i.e. pre-welfare and pre-taxation) inequality in Ireland is greater than anywhere else on the planet, even the USA. Ireland's Gini ratio, a measure of inequality, was greater than that of any other country surveyed in 2013, the most recent year for which data is generally available.

8Stephen Kearon, quoted by The Niall Boylan Show, August 10th, 2018. Available at: https://twitter.com/niallboylan4fm/status/1027978538689937410 Accessed August 26th, 2018.
9PwC, 2018 income tax calculator. Available at: https://www.pwc.ie/2018-budget-ireland/income-tax-calculator.html Accessed August 26th, 2018.
10OECD Income Distribution Database (IDD): Gini, poverty, income, Methods and Concepts. Available at: http://www.oecd.org/social/OECD2016-Inequality-Update-Figures.xlsx Accessed August 26th, 2018.

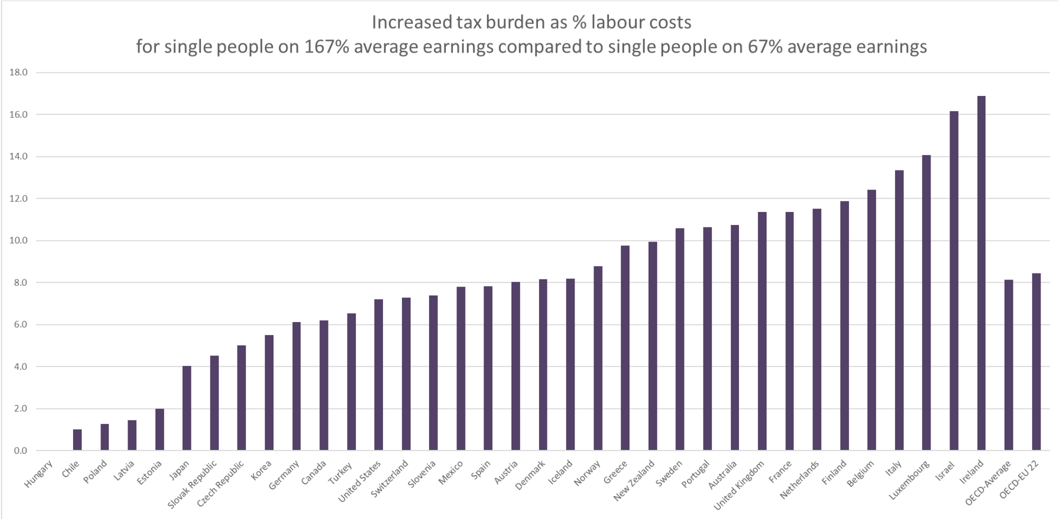


2. The reduction in inequality[11] effected by the operation of the taxation and welfare systems was greater in Ireland than in any other OCED country.

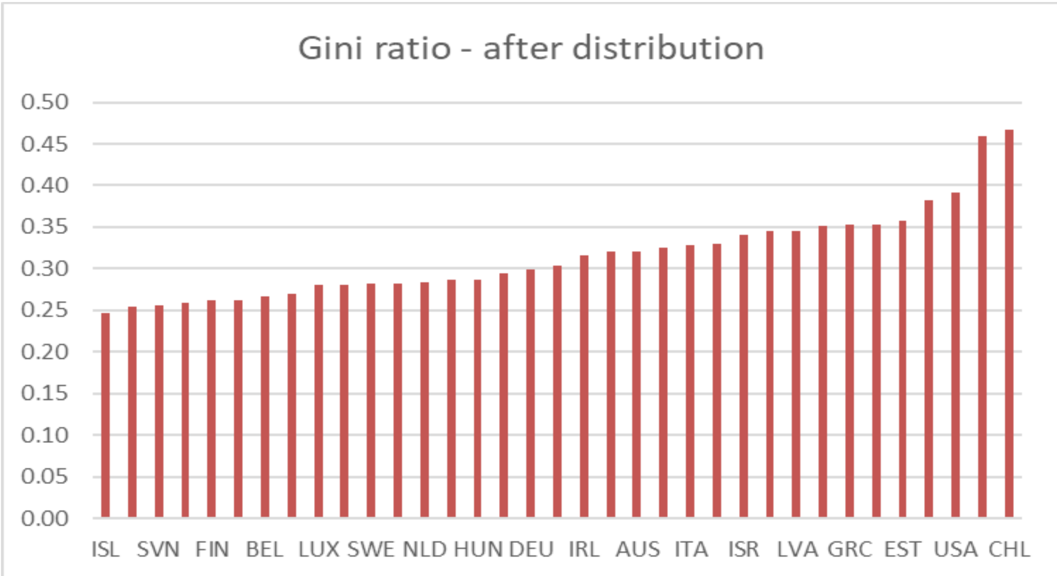


This maximum level of redistribution is achieved by Ireland having the tax system which most penalises increased earnings in the OECD. In 2016, the difference between the proportions of income deducted in tax and social contributions for single people earning 167% of average earnings[12] and those earning 67% of average earnings[13] is greater in Ireland than anywhere else in the developed world.

11OECD Income Distribution Database, op cit.
12OECD tax database: Income tax plus employee and employer contributions less cash benefits, single persons at 167% of average earnings. Available at: http://dx.doi.org/10.1787/888933461414 Accessed August 26th, 2018.
13OECD tax database: Income tax plus employee and employer contributions less cash benefits, single persons at 167% of average earnings. Available at: http://dx.doi.org/10.1787/888933461375 Accessed August 26th, 2018.



3. As a result, Irish disposable income inequality[14] (after factoring in the effects of welfare and taxation) is almost exactly equal to the OECD average.



In short, because the Irish poor earn so little, the Irish well-off must be taxed at Swedish levels to achieve a post-distribution equality outcome similar to the developed world average.

Why is pre-distribution inequality greater in Ireland than anywhere else?

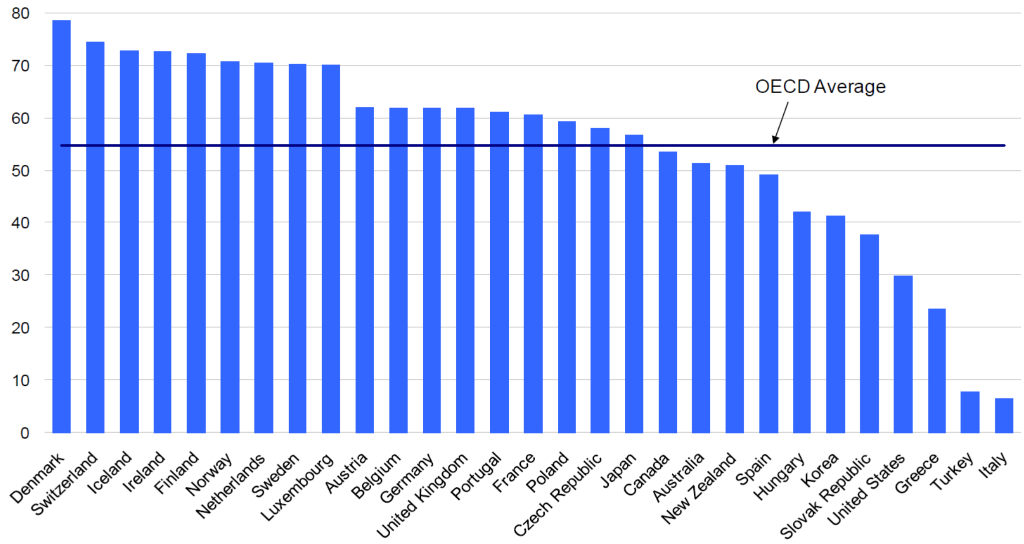
It is odd that pre-distribution inequality in Ireland should be greater than anywhere else in the developed world for we have strong minimum wage legislation, economic activity is buoyant, and unemployment is low. What might lie behind this?

- Irish welfare rates are extremely high compared to average wages based on the OCED's synthetic measure of the Net Replacement Rate[15]. This compares welfare rates for someone unemployed for 5 years to average wages (average production

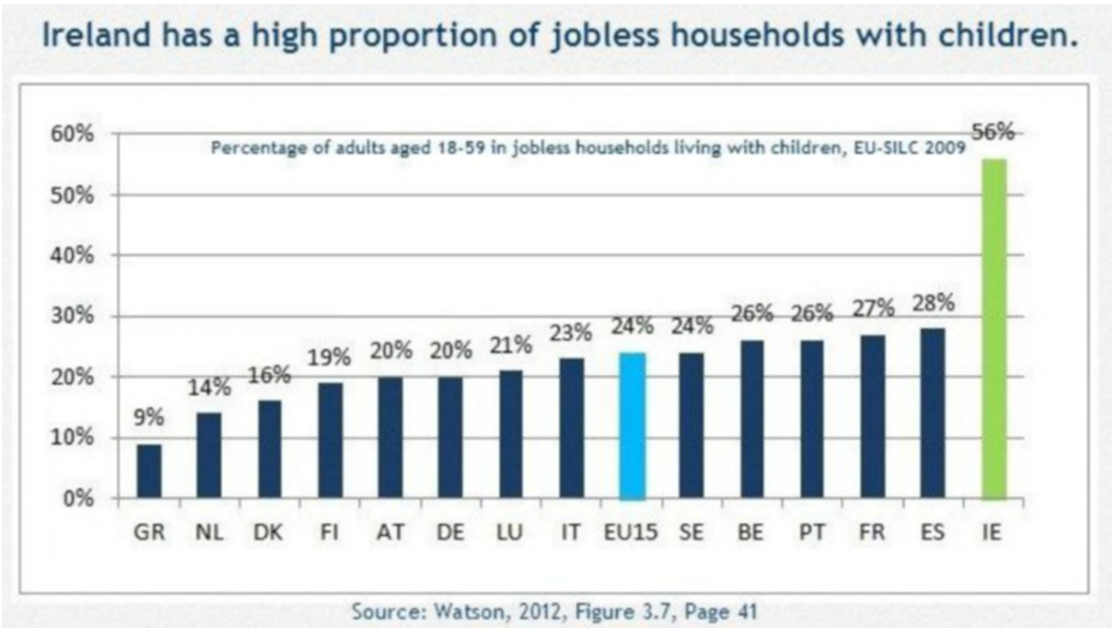
14OECD Income Distribution Database, op cit.
15OECD synthetic measure of net replacement rates. Available at: https://www.oecd.org/newsroom/39776147.pdf Accessed August 26th, 2018.

wages in Ireland, Korea and Turkey). The synthetic measure is computed for a blend of earnings levels of 67% and 100% of average earnings and for four family types (single persons, lone parents, one-earner couples with and without children).

Figure 1: OECD synthetic measure of net replacement rates (*a*)



- The proportion of Irish households[16] in 2009 - where nobody has a job - was more than double the EU average and was double the next-nearest country, according to a 2014 NESC report.



16Jobless Households: An Exploration of the Issues, National Economic and Social Council, June 2014. http://files.nesc.ie/nesc_reports/en/137_Jobless_Households.pdf Accessed: August 26th, 2018.

> The author of the NESC report was reported[17] as saying that "The reasons for household joblessness are complex but are related to three main factors. The first factor is the interaction between the tax and social welfare system and the transition from welfare to work. The second factor is related to the availability of jobs and whether the skills of those in jobless households match the requirements of the job. The third, and often overlooked, factor is the specific characteristics of the jobless household, such as the age, level of education and skills, and the health of the adults in the household, as well as the age and number of children."

Beveridge's warning

The 1942 Beveridge report[18] — which led to the foundation of the British welfare state, the model closely followed in Ireland — explicitly warned that the state "should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family".

Unfortunately, it appears that we have long since reached the point of stifling incentive, opportunity and responsibility. Instead of being a short-term insurance against poverty – whether caused by unemployment or by accident – welfare has become a long-term career choice.

The fault for this does not lie in those who exploit the resulting opportunity but in those policymakers who, whether by neglect or by a misplaced sense of social obligation – have allowed this state of affairs to develop.

Hibernia Forum calls for the state to formally adopt the position that welfare dependency may not and should not be allowed to be a viable career choice. Adoption of two policies would go a long way towards realising that objective:

1. **In Britain, a benefit cap limits the amount in state support an individual household can claim each year. The cap was introduced at £26,000 (€28,900) a year, or £500 a week, which was the average income of a family in the UK. This is a policy our government should introduce.**
2. **Passed as part of the welfare reforms introduced by President Clinton in the USA, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act placed a lifetime limit of five years on benefits paid by federal funds. This is another policy our government should introduce.**

17Finfacts, One quarter of Irish households jobless- More than double EU average, June 2014. Available at: http://www.finfacts.ie/irishfinancenews/article_1027833.shtml Accessed: August 26th, 2018.
18Social Insurance and Allied Services, report by Sir William Beveridge, November 1942. Available at: http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/19_07_05_beveridge.pdf Accessed: August 26th, 2018.