SIPTU

# Towards a New Course


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**There is no quick fix for the economic crisis, but the one-sided austerity approach is not working. We must embark on a New Course.**

One way or the other we will not overcome our difficulties without a deal on restructuring the enormous burden of socialised banking debt. We believe this will be achieved, but it will not be fully finalised until some time after the federal elections in Germany in September 2013. In the interim, steps must be taken to promote job creation and growth.

Continuing healthy export growth is critically important. Ireland has been performing exceptionally well in this respect but the outlook for major export markets is challenging. Even allowing for ambitious results exports will not generate the jobs or revenues required to achieve the step change that is necessary. It can only be brought about through growing the domestic economy.

This entails incentivising investment and stimulating consumer spending. We acknowledge that the government is very restricted in what it can do to this end. However, we believe there are options available even within the narrow parameters of the EU/ECB/IMF Troika Programme. Moreover, we contend that unless such a New Course is embarked upon the consequences of Budget 2013 will be unnecessarily severe and the challenge for 2014 will be virtually insurmountable.

In this paper, we summarise a range of measures which could be implemented while remaining within the outline of the Troika Programme, (although some of them would require their agreement). Taken together (and along with other progressive initiatives), we believe this New Course would promote job generation and growth, offering hope and a route to recovery.

**National Executive Council – SIPTU – October 2012**

# Towards a New Course

## 1. Investment Stimulus

We need an investment plan which will make a major impact on employment. The Government's €2.25bn announcement in July, while welcome, does not go far enough. At a time when tender prices are back at 1998 levels and 40% of those on the Live Register are skilled construction workers more must be done. The ICTU Policy Document "Delivering Growth and Jobs" envisaged the potential to create 30,000 jobs by investing upwards of €3bn per annum over the next 3 to 4 years. It proposed using the residue of the National Pensions Reserve Fund combined with monies incentivised from the private pension schemes, (which have about €80bn on their balance sheets), along with recycling the profits of the state companies as well as resources leveraged from the European Investment Bank. There is potential to do more in this area as the country's credit rating improves.

## 2. Major Retrofitting Programme

A renewed major retrofitting incentive programme should be launched linked into a new "Pay As You Save Scheme". This would generate jobs while contributing to environmental sustainability targets. It could dovetail with a scheme to incentivise the draw-down of AVC savings. (We understand the Department of Communications, Energy and Natural Resources is already working on an innovative funding plan.)

## 3. Encourage Household Spending

While the domestic economy languishes in the doldrums the household savings ratio stands at a phenomenal 14.2%. Initiatives must be taken to unlock this economic elixir, e.g.:

### AVC Pension Savings

It is estimated that people in Ireland own about €5bn in personal pension savings over and above that required to generate standard retirement benefits.Early drawdown of AVC's should be facilitated with full tax relief, (on the basis that this would not be availed of again on retirement) for the tax years 2013 and 2014. (This should not apply in respect of occupational pensions, i.e. Defined Benefit and Defined Contribution Schemes).

## 4. Pensioners should be reassured

Pensioners and those approaching retirement should be reassured as to the security of their retirement expectations. Apart from the health implications of unnecessary stress for the individuals themselves it is bad for the economy.

There are 310,000 people in Defined Benefit Pension Schemes. In many cases their legitimate retirement expectations are threatened. This is due to a regulatory requirement that schemes be funded to purchase standard annuities to fund liabilities on the assumption of wind up from a current date. Ordinarily this would be a desirable requirement. However, the price of standard annuities has escalated dramatically due to the financial crisis. Accordingly, schemes must maintain balance sheets considerably in excess of the amounts members would ever receive. This means that many schemes which are actually healthy will be forced to wind up or dramatically slash benefits in order to remain in place. The Government must legislate to avoid such permanent consequences as a result of a temporary phenomenon.

Changes to the State Contributory Pension in September 2012 will primarily affect workers who took time out for caring duties over the course of their working lives. They should not now be penalised and the Homemakers Scheme should be backdated to 1964.
The abolition of the transitional pension at age 65 should not proceed in 2014 as planned and should be phased in over 5 years at least.

## 5. Tax the greedy – spare the needy

It is perverse to continue cutting the incomes of people who must spend it all in order to live thus recycling it into the economy, while sparing the rich so that they can save. To date, over three out of every five euros raised in new tax measures since 2009 has been shouldered by working people. Just 20% of tax changes have been targeted at the better off.

1. Investment Stimulus
2. Major Retrofitting Programme
3. Encourage Household Spending
4. Pensioners should be reassured
5. Tax the greedy – spare the needy
6. Cut unemployment – not jobs, pay and welfare
7. Incentivise Job Creation – penalise job destruction
8. Public Procurement
9. Subsidising Elitism
10. New Economic Plan

The Government must;

- Do as they promised and abolish tax reliefs for the high income earners and increase the minimum effective tax rate.
- Impose a graduated solidarity PRSI charge on all those earning over €100,000 (or alternatively increase the Universal Social Charge (USC) or apply a new third rate of tax).
- Introduce a properly structured wealth tax.
- Fashion the proposed property tax on the basis of no increase on the current €100 household charge in respect of properties valued at the national average, with a graduated banded system thereafter. This should be structured so that those with the most valuable properties should pay most. (Those dependent on welfare should be excluded and there should be relief in respect of first time buyers who paid stamp duty between 2002 and 2007). It should also be made clear that there will be no further increase during the life of the Government.
- Apply PRSI to all unearned income over the current threshold of €16,692.
- Taxpayers should not be required to subsidise the pension savings of those on top incomes. At the very least the annual earnings limit for tax relief for pension contributions should be reduced from €115,000 to €80,000.

  (Note – the ICTU has identified the potential to generate up to €3bn in revenue from the wealthy and those on higher incomes. See Appendix I).

## 6. Cut unemployment - not jobs, pay and welfare

The centrepiece of the "New Course" should be a plan to generate 25,000 net new jobs by the end of 2013 and 50,000 by the end of 2014. This should be achievable if a demand side stimulus mobilising all available resources is applied combined with inward investment as it becomes clearer that the bank debt restructuring deal will materialise and the country's credit rating improves.
All this would be assisted by rescheduling part of the "adjustment" due for Budget 2013 out to 2015. (This would still be within the parameters of the Troika Programme but would require its agreement). Such an approach would limit the deflationary effect of the

next budget.There would be concern about a negative reaction in the financial markets to which we have to return if we are to emerge from the bailout straitjacket. However, this could be overcome if we were able to show that the change arose in the context of a well thought out and feasible plan to stimulate growth in the domestic economy against the background of strong and growing exports. It would also optimise the prospects for achieving the fiscal target in 2015 given the domestic stimulus, the bank deal and the possibility of some degree of recovery in the economies of major trading partners.

## 7. Incentivise Job Creation – penalise job destruction

The Employer Job (PRSI) Incentive Scheme should be radically expanded in respect of all net new jobs maintained for at least three years to encourage employers to recruit workers. Appropriate safeguards should be put in place to avoid displacement.

## 8. Public Procurement

While there has been a great deal of focus on public service pay this has not been matched by equal vigilance on the costs associated with public procurement and outsourcing.  It is now openly acknowledged by all sides that major issues exist in relation to publicly funded construction contracts across employment rights compliance and revenue collection. This requires an effective tripartite (i.e. employers, unions and government) and properly resourced system of monitoring.

ncreasingly, it is also becoming evident that assumptions in relation to outsourcing and use of agency staff do not withstand scrutiny. Often short term gains result in long term pain. There is an urgent requirement for objectivity and transparency in the interests of quality of provision and real "value for money" instead of "quick fixes".

## 9. Subsidising Elitism

Subventions to private schools and other elitist institutions should be discontinued. The third level education grant system should be restructured to include capital assets in the calculation of qualifying criteria and to exclude any possibility of income manipulation. Simultaneously, the wasteful practice of State subvention to the private health sector through our public hospitals should be ended.

## 10. New Economic Plan

We need a new Economic and Social Plan. The National Development Plan upon which the Troika Agreement is based is a one-sided austerity recipe which is not working. We need a new Economic and Social Plan for the medium term emphasising investment, growth and social progress.

# Appendix 1*
# Costing the Tax Breaks
## Areas where taxes can and should be raised in Budget 2013

### Income Taxes

**High Income Earners**
Congress has suggested many detailed reforms to personal tax deductions over the years. Our proposals centred on equity. These have included curbing pension allowances for high income earners, a ceiling on artist's exemptions, patent royalties and we fought to win an end to the bloodstock industry exemption. Many of the Congress tax reform proposals have been implemented. All remaining incentives should now be reformed equitably to raise much needed cash. These changes could raise tens of millions of Euro.

**A New Top Rate of Tax of 48% on High Earners**
Tax to be raised from increase in income tax rate to 48% for individuals earning over €100,000:

***Potential Revenue: €365m***
***(Based on Parliamentary Question (PQ) 18 Sept 2012)***

**An increase of 1% in Universal Social Charge (USC) on High Earners above €100,000**
This could be an alternative to the above top rate increase.

***Potential Revenue: €67m***
***(Based on PQ 18 Sept 2012)***

**End Tax Breaks for High Earning Foreign Executives (SARP)**
Gain from ending High Income Foreign Executives (SARP). Low yield but restores horizontal equity to the income tax system.

***Potential Revenue: €5m***
***(Per Budget 2012, page B5)***

**Reduce the Threshold for High Earners to €100,000**
Gain from reducing threshold for high earners to €100k and raising tax from 30% to 35%.

***Potential Revenue: €5m***
***(Estimate based on a Dept. of Finance study of this tax restriction)***

### Income Tax on Exiles or Tax Fugitives

Tighten up residence restriction and as they are high net worth individuals, i.e. rich, the yield is high.

*Potential Revenue: €20-30m (Congress estimate)*

### Increased Taxes on High Earners Pensions

The maximum pension contribution should be reduced from €115,000 to €80,000.

*Potential Revenue: €85-96m (Based on a Dept. of Finance Tax Strategy Group, paper 11/23, where a reduction from €115,000 to €100,000 gives €30m a year)*

### Gain from Higher PRSI on Abusive Employers

These are the bosses who call workers in at minimum notice and when things are slack tell them that they can go home. If the Government rewards job creating employers with all kinds of tax breaks including lower PRSI, then it should at least penalise exploiters, if only to level the playing field for decent employers.

*Potential Revenue: €150m (Based on the total PRSI yield from employers at €5bn in 2010, we take only 3% of total as our estimate of the proportion who are abusive to their employees for these to get this estimate)*

### Curb Tax Breaks for Corporates

This crisis was caused by a section of the indigenous corporate sector – the banks and speculators. Corporate Ireland has paid not one additional cent to help Ireland in the recovery. Only the poor and middle earners have paid in cuts and tax rises. The corporate sector, including the banks, have massive losses to set against future profits for years to come and some will try to offset them against previous profits on which tax was paid. This must be curbed as our tax base will be eroded as there should be no state-sponsored subsidy for reckless trading.

The effective rate profit tax paid by the corporate sector is around 4-6% depending on profitability and the year. Congress recognises that Ireland is the often the beneficiary of transfer pricing, the Dutch Sandwich and other artificial tax planning manoeuvres, but the corporate sector must contribute more and we propose restricting allowances and write offs to increase effective corporate tax revenue by 2% over a period of a few years.

*Potential Revenue in 2013: €500-600m (Estimate based on €4bn tax paid in 2012 by the sector where the effective rate is 4 or 5 per cent)*

### Financial Transaction Tax (FTT)

The FTT tax is being implemented in ten EU states, with Ireland following the UK in opting out. Congress believes Ireland will implement it shortly as part of a quid pro quo on relief on bank debt in a show of solidarity in Europe.

***Potential Revenue: €400-600m (Estimate based on ESRI/Central Bank report, EU Commission Report, Congress report and Tax Injustice from TASC)***

### Royalties on Mineral Resources

12.5% in addition to the higher corporate tax rate. The Kinsale gasfield on which we did get a royalty originally is close to depletion, but the Corrib gas field is nearly ready. Ireland has Europe's biggest lead zinc mines in Tara and Lisheen and other deposits too.

***Potential Revenue in 2013: €20-40m (Congress estimate)***

### Eliminate All Property Tax Breaks

The legacy tax breaks cost the rest of us taxpayers €447.8m in 2009. Assuming the figure is reduced it will still yield a substantial sum in 2013.

***Potential Revenue: €350-400m (Based on PQ of 18 Sept 2012 and estimates in Revenue Statistical Report 2010)***

## Unearned Income and Wealth

### Capital Gains Tax

The rate of Capital Gains Tax is now at 30%, whereas the marginal rate of income tax is 41%. We propose raising the rate of CGT by 5% to 35% in the Budget. We also propose that a proportion of the gains on the disposal of private residences in value of over €1m be subject to CGT and that the normal principle private residence exemption cannot be availed of more than once every 3 years.

***Potential Revenue: €100m (Based on various PQs including 18th Sept 2012)***

### Capital Acquisition Tax

Capital Acquisition Tax was increased in recent Budgets. It had been eviscerated for many years before. A reversion to several progressive rates based on rising thresholds (abolished in 1999) should be re-introduced. Also the 90% deduction on inheriting a business or farm should be reduced to 20%.

***Potential Revenue: €120-160m (Estimates based on PQs of 4 October 2012 and 18 Sept 2012)***

**DIRT Tax**
A rise to 35% would raise more revenue.
***Potential Revenue: €95m (PQ 18 Sept 2012)***

**Wealth Tax**
A wealth tax of 1% on those with wealth of over €2m for the next 3 years. Wealth would be defined as current value of all net assets, including private homes in excess of €1m value.
***Potential Revenue: €50-80m (Estimates based on CSO data of household wealth)***

**Gambling Taxes**
An increase in gambling tax online, on course, etc. of 1-2%.
***Potential Revenue: €20-30m (Based on PQ 18 Sept)***

**Excise Taxes**
A modest increase in carbon tax from €20 to €25 a tonne would raise around €110m and 25c on cigarettes would raise €41m.
***Revenue: €150m***

**Clampdown on Tax Evasion and Avoidance**
Ireland's elite has a long history of tax evasion. Audits are very good at exposing webs of evasion. There is still much evasion and this crisis is the time to really crack down. The staff at Revenue was cut by 10% between 2007 and 2011 and has probably fallen further since.
***Potential Revenue: €300m -€400m (Congress estimate)***

**Shift the First days of Illness Cover from Taxpayer to Employers**
This is not revenue raising but a budget cut or more accurately a shift as proposed by the Dept. of Social Protection.
***Potential Revenue: €100-200m (Estimate based on Accounts of the Social Insurance Fund 2010 at between 10 and 20 per cent of the illness benefit)***

## Total Possible Tax Revenue €2.9bn to €3.5bn

****Source: ICTU Pre-Budget Submission, Budget 2013. Published 7th November 2012.***

## Budget adjustments 2012-2015 as set out in the Troika Programme

| €bn | 2012 | 2013 | 2014 | 2015 | Total remaining 2013-2015 |
|---|---|---|---|---|---|
| Total Adjustment | 3.8 | 3.5 | 3.1 | 2.0 | 8.6 |
| Tax – new measures | 1.0 | 0.95 | 0.9 | 0.4 | 2.25 |
| Tax carryover | 0.6 | 0.3 | 0.2 | 0.3 | 0.8 |
| Current expenditure | 1.45 | 1.7 | 1.9 | 1.3 | 4.9 |
| Capital expenditure | 0.75 | 0.55 | 0.1 | 0.0 | 0.65 |
| Gen. Gov. Balance €'000 | -13.115bn | -12.355bn | -8.14bn | -4.95bn | |
| Gen. Gov. Deficit % of GDP | -8.3% | -7.5% | -4.8% | -2.8% | |

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