Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Foundations for the Future
The Report of Ireland's Commission on Taxation and Welfare

Introduction

Taxation and welfare policies are among the most potent instruments available to the state to influence living standards. They have a major bearing on numerous aspects of economic and social policy. They are part, but not the totality, of a wider social contract – the set of rights and mutual obligations that come with living in Ireland. For this reason, debates over taxation and spending lie at the heart of our democratic tradition.

The Commission on Taxation and Welfare (the Commission) was established by Ireland's Minister for Finance on 6 April 2021 and, following the appointment of its members, commenced its work in June 2021. The Commission, chaired by Professor Niamh Moloney of the London School of Economics and Political Science, was asked to review how best the taxation and welfare systems can support economic activity, and promote increased employment and prosperity, while ensuring that there are sufficient resources available to meet the costs of the public services and supports in the medium and longer term.

The Commission conducted its work between June 2021 and June 2022, during which time it met on 26 occasions and undertook a major on-line public consultation, *Your Vision, Our Future*. The Commission presented its Report, *Foundations for the Future*, to the Minister for Finance in July 2022 and it was published in September 2022.

The Commission adopted a long term and strategic approach to its work and presented its Report as a balanced package of reform proposals to address a range of challenges, including fiscal sustainability challenges (including those relating to demographics and an ageing population), intergenerational equity and social cohesion, supporting the transition to a low carbon economy, and ensuring a supportive environment for enterprise, innovation, and investment in Ireland. The Commission finds that it will be necessary for the share of taxation as a percentage of national income to increase in the future. While the Commission does not set out a specific target, the Report makes a range of proposals to broaden the base for all tax heads and to increase the yield from the least distortionary taxes. In the area of welfare policy, the Commission makes a number of proposals aimed at supporting people in work, and at addressing child poverty.

Some of the key messages from the Report include:

- It is necessary to broaden the tax base so as to limit the need for increases in tax rates and to secure the sustainability of the taxation system against future challenges. This will entail widening the base within tax-heads and increasing the yield from taxes which are least distortionary, promote environmental goals, and enhance the overall progressivity of the system. The balance of taxation needs to shift away from taxes on labour and towards taxes on capital, wealth, and consumption.

- While personal taxes are highly progressive, the exclusion of large numbers of individuals from the personal tax system is becoming increasingly problematic from a fiscal sustainability and reciprocity perspective, which increases vulnerabilities.
- To promote equity and sustainability, preferential Income Tax or Universal Social Charge (USC) treatment based on factors such as age or personal characteristics should be phased out. As far as possible, and with limited exceptions, Income Tax and PRSI charges should be based on income only, and different types of income should be treated equally.
- The share of taxation from property and wealth is low and should increase. While the Commission is not recommending a net wealth tax, the yield from Capital Gains Tax (CGT) and Capital Acquisitions Tax (CAT), as well as from taxes on land and property, should be substantially increased. Distortions within the system, such as the treatment of death for CGT purposes, should be removed.
- A Site Value Tax (SVT) applicable to all land that is not subject to the Local Property Tax (LPT) should be introduced, replacing the existing system of Commercial Rates. There should be differential treatment in the application of SVT to agricultural land.
- LPT is a well-functioning tax, the yield from which should be increased materially. The Commission recommends that tax incentives should not be used in order to stimulate the supply of housing.
- The tax system has an important role to play in promoting carbon reduction. The schedule of Carbon Tax increases to 2030 should be implemented, and fossil fuels should ultimately be taxed in proportion to their carbon content, which will require the phasing out of implicit subsidies. As the yield from taxes on fossil fuels declines, it will be necessary to replace these revenues with new taxes, including road usage charges. In the short-term, the Commission supports the introduction of congestion charging.
- Value Added Tax (VAT) should be reformed to increase its yield by merging the existing special reduced rates and increasing them incrementally over time. Temporary VAT reductions should not be used as a counter-cyclical measure. VAT administration should be modernised.
- There is scope to make significant improvements to the welfare system through the progressive introduction of reforms focused on supporting employment, addressing child poverty, and removing cliff-edge effects. The Commission does not support the introduction of Universal Basic Income.
- The adequacy of social welfare rates is central to poverty reduction. Regular benchmarking exercises for working-age payments should be undertaken, which would set multi-annual targets for progress in rates.
- Working-age payments should be reformed to move towards a working-age assistance payment available to all households. The existing system of child income support should be enhanced with a second level of child income support, in addition to Child Benefit, for low-income households. These reforms could usefully be progressed in tandem.
- Given changes in social norms and family structures, individualisation should be progressed in both the Income Tax and welfare systems (although this term means different things in each system).
- Tax-based policies to support productivity and employment growth in Small and Medium Enterprises (SMEs) are appropriate, but should be targeted towards and made more accessible to early-stage, high-risk and research and development-intensive businesses.

- While it is appropriate to incentivise savings for retirement, reforms are required to ensure that tax-relieved savings are taxed appropriately at the point of drawdown. An explicit policy is required to specify the level of retirement income up to which tax subsidies are appropriate. A more flexible approach to encourage greater retirement savings at younger ages should be adopted, subject to an appropriate lifetime limit.
- It is appropriate to use Excise Duties to discourage consumption of alcohol and tobacco and to support public health. The link between the public health rationale and design of these taxes should be strengthened. The Government should reserve the right to impose taxes on the consumption of ultra-processed foods, in order to support its policy of reformulation.
- Tax expenditures should only be introduced where there is a clear market failure and direct expenditure options have been examined. Better data and more resources for evaluation, including peer review, are also required.
- A strategic approach is required to address long-term fiscal challenges. The annual budget cycle should be enhanced to provide for greater debate on these issues, and the necessary fiscal instruments and administrative systems should be put in place to deal with them in advance.