PEOPLE BEFORE PROFIT ALTERNATIVE BUDGET

13 OCTOBER 2014

TAX JUSTICE, FAIRNESS & MEANINGFUL RECOVERY

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Note on methodology and costings:

In the context of budgets 2013 and 2014, the government attempted to ridicule opposition parties on the grounds that their budget statements were not fully "costed" by the Department of Finance (DoF). However, this year, despite promises from the government and the department that such costings would be provided for alternative budget proposals –these costings were, either, not forthcoming at all from the department to PBPA or were delivered so late as to be virtually useless in the preparation of a budget statement. PBPA were asked to submit budget proposals and questions by the beginning of September and questions were submitted on 2nd September. The responses to our questions did not arrive until 9th October and when they did arrive, eighty percent of the questions asked/costings requested were not provided. PBPA is absolutely convinced that the DoF's failure or refusal to answer the questions it was asked were influenced by the economic and political stance of the government and the DoF's own prejudices on certain issues – particularly on issues such as FTT, Wealth taxes and Corporate tax. As such, PBPA have been forced to prepare a budget statement that includes proposals and estimates based on our own research and analysis and responses to Parliamentary Questions. We wish it to be noted, in this regard, that we have based these proposals and estimates from reputable official sources and institutions and that in all revenue raising proposals we have erred on, what we believe to be, conservative assumptions, based on the factual evidence available to us. We simply do not accept that the DoF is unable to provide reasonable estimates on certain key proposals and are certain that if the government requested such estimates – even where the department felt unable to provide categorical figures – these estimates would be provided. Given the failure of the government to ensure the DoF provided the necessary costings/estimates/answers to PBPA and others who requested them, we reject any assertion by either government or media that our budgets were not "costed." Our alternative budget is costed as best it could have been, given the resources, support or information available to us.

TAX JUSTICE, FAIRNESS & MEANINGFUL RECOVERY

Government talk of "recovery" or "relaxing austerity" will mean nothing whatsoever to vast numbers of households, who after savage cuts in incomes and services over the last six years, will this year experience the further shock of water charges and a full year impact of the property tax.

Regardless of any small reductions in income tax, such as those now being mooted by the government, the combined impact of these two measures alone will mean most low and middle income households will be financially worse off 2015 than in the previous year.

Immediate abolition of both water charges and the LPT, and a considerable reduction in the burden of USC, are therefore the pre-condition for any meaningful improvement in the financial position of ordinary families.

Much of the debate over the amount of "adjustment" required in the forthcoming budget also misses the more important question of the **type** of tax, spending and investment of measures that are undertaken and whether they contribute to a more or less equitable and sustainable distribution of wealth.

The cumulative effect of six years of cuts in public services and public supports, particularly in the areas of health, housing, social welfare and local services mean that the quality of services will continue to deteriorate and poverty will persist, against a background of an already full blown crisis in the area of social housing, homelessness, the public health service, local government services and the on-going degradation of education.

There is also considerable evidence that much of the much trumpeted improvement in the unemployment figures is largely to do with an enormous outward migration of skilled and non-skilled workers and a massive expansion of extremely low-paid "labour activation" schemes, rather than being evidence of a sustainable and meaningful recovery.

While, the government appear to have secured some relief on the cost of servicing the national debt, the scale of the debt remains dangerously high at 123% of GDP (the fourth highest in Europe). The sustainability of this debt burden depends entirely on maintaining the recently improved growth rates over the medium to long-term – a rather doubtful proposition, given increasing stagnation in the wider European economy. Any significant external economic or financial shock over the next number of years would rapidly de-rail the currently fragile recovery, making Ireland's debt position wholly unsustainable.

In any event, with debt interest costs running at €8.45billion for 2015 and projected to remain at a very high level for the foreseeable future, Ireland will continue to see a massive outflow of funds to pay-off the debt incurred by the banking and financial sector in the aftermath of the 2008 financial crash. This outflow directly robs the state of billions of euros every year of desperately needed investment funds for infrastructure and strategic enterprise – the sort of investment we really need to underpin a sustainable and meaningful recovery over the longer term.

Against this background, the government's central economic strategy continues to focus on Foreign Direct Investment (FDI) and tax incentives for the corporate sector. The government's desperation to keep big business and the corporate sector happy with low corporate taxes and low wages has the twin consequence of limiting the availability of resources for the state to develop its own investment programme and ensuring that the benefits of any economic growth do not find their way into the pockets of ordinary workers or local economies.

To put all this in simple terms, the government's plan is to achieve growth and financial stability by keeping wages low, starving public services of funds and continuing to privatise wide swathes of the economy. While, such a strategy can enjoy some short term success, it is a guaranteed recipe for a return to the boom – bust cycle and will ensure that low and middle income families will see little benefit or relief, even if there is some temporary return to economic growth.

People Before Profit proposes a radically different approach to that currently being pursued. We propose a strategy for re-organising the economy in a way that is sustainable and fair, and which depends crucially on a dramatic redistribution of wealth to overcome inequality and ensure the protection of citizens and the economy from the anarchic fluctuations of an inherently unstable "for profit" economy.

The policy of PBPA has been and remains that we should freeze all debt interest payments over and above those that existed in 2008 before the crash, as we believe these debts are not the legitimate debt of ordinary Irish citizens. However, for the purposes of this budget submission, we will set aside this debate to show a budget that could be delivered even within the confines of Ireland's current debt obligations but which would radically re-balance the tax burden in a progressive way, while at the same time financing a significant reversal of the most regressive cuts and funding a major new public investment programme.

In broad terms, the alternative approach proposed by PBP will involve the following:

-Reversing cuts and abolishing taxes and charges that are socially regressive and impact on the spending power of low and middle income households

-Significantly increasing public investment in key areas of strategic infrastructure and services – particularly housing, education, health, water, and the promotion of domestic industry and enterprise.

-Financing increased spending and investment through increased taxation on incomes in excess of 100,000 per year, accumulated wealth, corporate profits and financial speculation.

Revenue raising measures:

Corporate tax

Currently, large corporations in Ireland, particularly MNC's, are paying a tiny fraction of their corporate profit in tax, compared to the proportion of income paid in tax by low and middle income families. The latest available revenue figures for total corporate profits, before deductions and charges, are €61.5* billion but only €4.17 billion is paid in tax, an effective rate of 6.17%. Analysis by the US bureau of statistics and the view expressed by a US congressional committee investigating aggressive tax avoidance by MNC's incorporated in Ireland has suggested that the actual effective rate is far lower than this at 2.2%** because of the "ownership and control" criterion operating in the Irish tax code and the possible abuse of transfer pricing. Irish tax law allows a small number of hugely profitable MNC's, based in Ireland, to allocate profits from companies incorporated here to low tax jurisdiction's or tax heavens elsewhere. PBPA propose to introduce a minimum effective corporate tax of 12.5% on total corporate profits, based on existing figures from the revenue commissioners, of companies declaring profits in Ireland. However, we wish it to be noted that were our proposed new minimum effective rate to include companies incorporated in Ireland but not "owned and controlled" and therefore taxable in Ireland, the projected additional yield in corporate tax revenue would be very significantly higher.

Proposal: Establish a minimum effective corporate tax rate of 12.5% on Total Profits

Raises: €3.5 billion.

Proposal: Establish a new nominal rate of 15%

Raises: €500 million (conservative estimate)

Total additional revenue: €4 billion

* Department of Finance Effective rates of Corporation Tax in Ireland 2014: Technical Paper, April 2014. P.iii

** Revenue Commissioners, Statistical Report 2012, Corporation Tax Statistics 2011, Table CTS2

Financial Transactions Tax

The EU commission estimates that imposing a tiny 0.1 tax on securities and 00.1 on derivatives would yield between €490-730 million per year. However, there would be a reduction of €182 million in lost stamp duty.

Proposal: Introduce the FTT to raise €320 million

Increase Income Tax on top incomes & reduce USC on low and middle incomes

The burden of the USC on low and middle income earners has savaged their incomes and spending power. The same is not the case for the high earners.

The number of tax payers earning in excess of €100,000 per year is 113,487, this is just 5% of the work force. They receive €20.6 billion in income. Average earnings in this group are €182,336. Average earnings among the top 13,000 earners is very considerably higher at €505,266.

These top 113,487 earners pay €7.3 billion in tax and USC – an effective rate of 35%. If they were to pay just 1% more, it would raise €206 million, 2% €412 million and so on, 3% €618 million and so on.

(source PQ 42354/12 Tax table 2012 – Dept of Finance)

A significant stepped increase in income tax rates these top earners per year would impose relatively little hardship on such earners and have far less impact on domestic spending in the economy as a whole.

Proposal:

Income Tax

Establish four new tax bands on earning over €100,000 per year:

- 50% on earnings between 100,000 and 140,000
- 55% on earnings between 140,000 and 180,000
- 60% on earnings between 180,000 and 250,000
- 65% on all earnings over 250,000

Raise: €922 million

(Source PQ 28557/14)

USC

Abolish the USC for those earning less than €30,000

- A new 2.5% rate for those earning between €30,000 and €60,000
- A new 5% rate for those earning between €60,000 and €100,000
- A new 7.5% rate for those earning over €100,000

Cost: €950 million

(Costed by Department of Finance)

Wealth Tax

According to the latest Central Bank (Quarterly Bulletin Oct 2014) household net wealth has significantly increased over recent years, and stands currently at €508.5 billion after liabilities are subtracted. Overall net wealth has risen by 13.7% since 2012.

Although, the government have failed or refused to establish a database of household income and wealth distribution, a number of studies in recent years, suggest that this wealth is significantly concentrated in the hands of the very wealthiest households.

Credit Suisse and the Bank of Ireland* have both produced reports in recent years suggesting that the wealthiest 1% of the population account for 20% of this wealth. (reference) A more conservative estimate of this wealth distribution was recently produced by the Merrill Lynch**, suggesting that the top 1% account for 10% of this wealth.

Taking this most conservative estimate, this means the top 1% of the population account for €50 billion in personal wealth. Consequently, a wealth tax aimed only at this top 1% of the population could generate €500 million for every percentage point of a wealth tax levied.

Furthermore, given the enormous concentration of wealth at the top end of society, these assets - whether financial or property - are undoubtedly wealth generating. This fact is made clear by the year on year increase in the value of overall national household wealth since 2009. This is wealth that is appreciating in value and this appreciation - whether in form of dividends, profits, rent, deposit interest or appreciating property values - will be even greater for those with very large amounts of property and financial assets, beyond their principal private residence. Put simply, wealth generates more wealth and the evidence suggests clearly that the appreciation in the value of wealth has been consistently high in recent years. So even a 2% wealth tax, that impacted solely on the wealthiest one percent would raise €1 billion per year. Such a tax would barely, if at all, impact on this group, as at this level of wealth concentration, the average annual percentage appreciation in the value of these assets is very considerably higher than 2%.

Proposal:

- Establish an annual wealth tax of 2% on assets (excluding the family home or family farm) over €1 million.
- Establish a national database on the distribution and ownership of financial and property assets.

Raise €1 billion

*www.eapn.ie/.../**Bank-of-Ireland-Wealth**-of-**Nation**-Report-**2007**.pdf

**http://www.in.capgemini.com/sites/default/files/pdf_Merrill_Lynch_Global_Wealth_Management_and_Capgemini_Release_14th_Annual_World_Wealth_Report.pdf

New Expenditure

Abolish Property Tax

The property tax currently levied on all family homes is inherently regressive and fails to take into account, either ability to pay or differentiate between the family home and wealth generating property or other assets. It also unfairly discriminates against families that happen to live in areas where property prices happen to be high, but where there is no link between the value of that property and the income or ability to pay of that household.

Proposal: Abolish the Local Property Tax.

Cost: €500 per year.

Abolish Water Charges

The water charges are cruelly unjust and regressive burden on the vast majority of low and middle income households. For many, it is simply unpayable. It is also unacceptable that access to water, which is a basic human right, should be in any way limited by ability to pay. Water is a human right and should be paid for through progressive general taxation.

Proposal: Abolish the water tax

Cost: €500

Social Protection – Reverse the Cuts

Each of the Austerity Budgets has included cruel cuts that have savagely eaten into the income of some of the most vulnerable people in our society. Often these cuts saved pittances for the government but have had a profound effect on the lives of those who rely on social welfare payments. We propose reversing the following cuts:

- Abolish the discriminatory JSA rates for under 26 year olds - €161 million (PQ 27289/14)
- Restore the Telephone Allowance - €45 million (PQ 27290/14)
- Reversal of €50 cut to Back to School Clothing & Footwear Allowance – €16.2 million (PQ 27283/14)
- Increase Basic Social Welfare Rates by €10 per week - €711 million (PQ 27292/14)
- Reversal of cuts to One Parent Family Payment including reduction of income disregard - €112.2 million (Comprehensive Expenditure report 2012 DoPER)
- Restore Back to Education Allowance - €24 million
- Reverse cuts to Child Benefit - €142 million

- Restoration of the Christmas Bonus - €260 million (Comprehensive Expenditure Report 2013 DoPER)
  Total: €1.47billion

Fund our Health Services

Austerity Budgets are destroying our health service. Spending has been reduced by €3 billion, 10,000 staff have been lost and there are over 1500 closed beds. This means dangerous over-crowding in our hospitals, unacceptable waiting lists for outpatient appointments and hopelessly under resourced primary care.

€400 million is paid from private health insurers to private consultants, by banning private practice for HSE consultants this money could be channelled into the public health service.

We propose using this €400 million and a further €600 million to fund:

- Re-opening the 1500 closed beds (INMO figures)
- Roll out of full primary care facilities
- Restoring staffing levels to 2008 levels
- Increasing the discretionary medical card fund

Total additional cost: €600 million

Education: Reverse the cuts & boost funding

Irish classes are the second most over-crowded in the EU with more than 125,000 pupils in classes of more than thirty pupils. Third level institutions in Ireland have also seen a serious deterioration in staff-pupil ratios in recent years with the result that leading Irish universities have dropped in the international university rankings. Third level students and their families have also been seriously affected by increases in student registration fees, the lack of affordable student accommodation and more general student poverty arising from economic austerity.

The Education system needs:

- A staffing plan in both primary and post-primary education to ensure reductions in class sizes over the coming years

- A reversal of the 15% cut in children's special education resource teaching hours and supports since 2010 which has seen an average loss per school of approximately 17 hours per week *

- A reversal of the last three years increase in the current student contribution (registration fee) - €49.5 million

- A reversal of the reductions in 3rd level and postgraduate grants -€15.4 million

Proposal: Reverse education and increase the overall Education Budget.

Cost €500 million.

NERI has called for a large scale programme of public investment focused on areas such as Education
http://www.nerinstitute.net/research/quarterly-economic-observer-autumn-2014/

* JMB Survey of school managers May 2014

Restore the Local Government Fund

The funding of local authorities has been cut by 26% since 2009. This has resulted in a huge deterioration in local services – road sweeping, housing maintenance, parks maintenance, road and path repairs. Many areas are in a state of total disrepair. The waiting times for basic house repairs and house alterations for disabled and elderly people are unacceptably long.

Proposal: restore €160 million to local government.

An Emergency Programme of Social Housing

The failure of the state to directly provide social housing over recent years has produced an unprecedented housing and homelessness crisis. It is also undoubtedly contributing to a dangerous and unsustainable rise in property prices, as large cash-buyers and investment funds buy up available property and threaten to achieve a near monopoly position. The housing and homelessness crisis also represents a massive and unacceptable waste of public resources with over €600 million per year being wasted in rent allowance, leasing arrangements, RAS schemes and emergency hotel accommodation.

The state must urgently undertake a new emergency public housing programme to provide for housing need and reduce the cost to the exchequer of outsourcing social housing to the private sector. While the upfront cost of such a programme, will be considerable, in the medium to long term it will achieve a guaranteed saving for the social welfare budget, stimulate employment, thus further reducing social welfare costs and increasing tax revenue. In the longer term, once initial capital costs have been recovered, it will represent a revenue generating asset for the state that will contribute to the public finances. This programme should be financed initially from a combination of NAMA’s cash reserves, Strategic Investment Funding and EIB loans.

The increase in homelessness can be directly linked to the cuts in rent allowance over the last number of years. We need an emergency fund for Community Welfare Officers to allocate increases in rent allowance.

Proposal: Additional funds to community welfare to allow flexability in allocation of rent allowance.

Cost: €100 million

Proposal: Establish a three-year emergency public housing programme of €4.5 billion – 2015 €2 billion, 2016 €1.5 billion, 2017 €1 billion

Cost year one: €2 billion

Public works programme – Repairing our Water infrastructure

The government have proposed to repair the state's decrepit water infrastructure, which is currently leaking 41% of water through leaks and damaged pipes, by imposing a regressive and unjust water charge. The establishment of Irish water and the water metering programme has also imposed an enormous and wasteful cost on the exchequer that has, so far, contributed nothing to accelerating the urgently needed water infrastructure rehabilitation programme. PBPA is committed to abolishing the water tax and the new Irish water quango and, instead, establishing a major public works infrastructure rehabilitation programme to repair and renew the state's water infrastructure. Currently, Irish water is proposing an investment programme of €1.77 billion over three years 2014-2016, involving expenditure of €410 million in 2015. PBPA propose to significantly boost the size of this investment programme and increase the 2015 spend on the programme to €800 million. We further propose the establishment of €250 million grant fund to be made available to householders to install rainwater harvesting and other water conservation measures. We believe this should be financed from an increased corporate tax take and other taxes on wealth and higher incomes.

Proposal: Boost the water infrastructure repair programme

Cost: €500 million

Proposal: Establish a household water conservation grant fund

Cost €250 million.

Total cost: €750 million

Community Afforestation & District heating public works programme.

Ireland has spectacularly failed to meet its afforestation targets over recent years, despite having the most favourable conditions in Europe for growing trees and the enormous economic, employment, amenity and environmental potential for forestry in this country. The Mc Carthy report on state assets identified 500,000 acres of Coilte land that is currently unused for forestry either because it is considered unsuitable for large-scale commercial forestry or would require significant investment to be viable. We believe some of this currently unused land should be leased at very low cost to community groups and co-ops to develop local forest co-ops and to develop local district renewable energy and heating projects.

Proposal: Establish community forest & district energy projects

Cost: €100 million

	Credit (millions)	Debit (millions)
Corporate Tax	3500	
Financial Transaction Tax	320	
Income Tax	922	
USC		950
Wealth Tax	1000	
Property Tax		500
Water Charges		500
Social Protection		1471
Health		1000
Education		500
Social Housing		2000
NAMA & SIF	2000	
Local Government Fund		160
Water Infrastructure Investment		750
Community Afforestation & district heating programme		100
Totals	7742	7931