

LABOUR YOUTH PRE-BUDGET SUBMISSION

BUDGET 2015



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Labour Youth

Labour Youth – Budget Suggestions

1 INTRODUCTION

In recent months much has been made of the fact that the "heavy lifting has been done" in terms of budgetary adjustments. While this may be true, with a projected adjustment of €2 Billion for budget 2015, many difficult decisions remain.

Ireland is expected to reach peak economic output in 2017. This means that the economic crash will have taken almost a decade to recover from. It also means that while growth has returned, the economy needs continued assistance.

Ireland's estimated growth rate for 2014 stands at 2.1% with 2015 at 2.9%. Should these rates be achieved then budgetary pressures would be somewhat eased. However, as seen in the final quarter of 2013, the Irish economy is in a fragile position and is vulnerable to outside shocks such as a continued euro zone crisis.

Ireland's politicians have long been proud of the fact that our country has the most progressive taxation system in Europe. While this fact is indeed backed up by organizations such as KPMG, it is also true that Ireland has one of the lowest tax to GDP ratios in the Eurozone.

With the above in mind Labour Youth calls on the government to ease the burden placed on the Irish people, particularly those in the low to middle income bracket. In this pre-budget submission we have proposed a number of revenue raising proposals as well as some expenditure changes that will promote prosperity as well as equality in Irish society.

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2 TAXATION MEASURES

2.1 REFERENCE: CURRENT LEVELS OF INCOME TAX

“Headline” Income Tax rate	41%
Marginal Rate of Personal Tax (income tax, USC, PRSI)	52%
Average Tax actually paid by a Single Person Inclusive of (income tax, USC, PRSI)	21.6%
Average level of personal tax paid by those earning over €50,000	17.9%
The maximum amount of income tax those earning under €25,000 can afford to pay	13.8%

2.2 MOVE TOWARDS DANISH TAX MODEL

The Danish Tax Model operates on a dual system. This is a tax rate structure in which two different rates of taxation are charged, depending on income levels. All income is taxed at the lower rate up to the cut-off income tax point, and all income above the cut-off point is taxed at the higher rate. This is similar to a flat tax structure but instead of just one rate, it has two.

The existing Irish tax system, The Dual Income Tax system, puts a proportional tax rate on all net income (capital, wage and pension income etc.) and then applies a progressive tax rate on gross labour and pension income. This implies that labour income is taxed at higher rates than capital income, and that the value of the tax allowances is independent of the income level. We have a Comprehensive Income Tax system which doesn't look at where the money comes from, just taxing it at fixed flat rates.

Introducing a Danish-style tax system makes the most sense out of all the Nordic models because in terms of population, size of the economy and the availability of natural resources Denmark would be closer to Ireland than the more commonly-cited examples of Sweden or Norway.

The next page outlines a few key differences between Dual Income and Comprehensive tax systems.

2.3 DUAL INCOME/COMPREHENSIVE SYSTEMS – KEY DIFFERENCES

Dual Income	Comprehensive
Puts a proportional tax rate on all net income (capital, wages and pension income etc.), then it puts a progressive tax rate on gross labour and pension income.	Draws no distinction between capital income and income earned through
Because of the varying levels of tax rates, all tax rates are dependent on income meaning that the more able you are to pay, the more tax you pay.	There is no proportionality in the Comprehensive system, it promotes the cycle of inequality. Flat rates of tax are common.
Because of the transparent and straightforward nature of the dual income system, opportunities for noncompliance are slim and levels of fraud by wealthy companies are low	There are many ways which companies and wealthy individuals can exploit the system, and not pay the correct amount of tax.

2.4 INHERITANCE TAX INCREASE

One way of raising revenue equitably could be an increase in Inheritance Tax from 33% to around 40%. The principle of progressivity could be maintained by seeing the figure increase to 50% on inheritance over €150,000. As inheritance is not income that is earned from work, it is therefore an asset and should be taxed as such. Increasing Inheritance Tax, and particularly dividing it into tiers, would likely disproportionately affect wealthy and high-earning individuals and families without putting a significant burden on the most vulnerable.

2.5 THIRD RATE OF INCOME TAX

The introduction of a third rate of income tax on high incomes (above €100,000) at 48% would affect just under 100,000 income taxpayers, while raising an estimated €365 million.

Ireland currently has no wealth tax. Whilst middle income earners are disproportionately impacted by the anomalies in our tax system, the wealthy go largely unaffected due to their access to “creative” accounting and wealth management. A third rate would alleviate the burden on lower income groups, increase the tax take of the government and send out a vital signal of fairness to the majority of voters.

Much is made of the very real obstacle to a third rate posed by Fine Gael, who are determined to preserve the existing income tax system as is. However, there is a tactical argument to be made for Labour to again take up the banner of a new higher rate. At present, Fine Gael’s maintenance of the existing higher rate is perceived to benefit both middle- and high-income earners. By credibly advocating a third rate, Labour could split the interests of those above and below €100,000 a year, and end the assumed necessity felt by many paying the current higher rate to ensure the very highest earners are not asked for more.

Labour’s tax vision must be one that can be supported by the majority of our citizens, and by advocating a third rate on high incomes, we open the door to electoral alliances between low- and middle-earners to ensure those at the top pay a fair and proportional amount.

2.6 HEALTH/SOCIAL SERVICES CONTRIBUTIONS

If Labour’s vision of a social democratic society is to succeed, steps must be taken to challenge the traditional anti-tax instincts of much of the Irish electorate. One way in which this could be done is through the introduction of a Healthcare Contribution of 6%, deducted from gross income, and an 8% deduction for contributions towards funding Social Services.

Taken individually, each of these measures could increase the amount of funding made available to these vital services. They could also have the benefit, by providing people up front with the ultimate destination of a set amount of their pay cheque, of improving transparency and understanding within the tax system.

The immediate reaction may be reject such measures out of hand, given that they cut against the principle of a general pot of funds for government spending. However, as a recovery takes shape it is vital to take radical steps towards reducing the likelihood of future governments attempting to return us to the low-tax, high-spend model traditionally favoured by Fianna Fáil administrations. Creating a direct link between every taxpayer and the funding of some of our most vital services could be just such a step.

2.7 USC REDUCTION FOR ZERO HOUR CONTRACTS WORKERS

At Labour's core is a concern for work and workers, and it is therefore essential we be constantly looking at innovative ways of improving work conditions throughout the country. Labour Youth is particularly concerned with the phenomenon of Zero Hour Contracts and welcomes the government's commitment to looking into the matter in detail.

However, we also appreciate the significant amount of time that is likely involved in putting together the first major study of Zero Hour Contracts in the Irish workforce to date. Furthermore, whilst we support some form of legislative action to combat abuse of such contracts, we firmly believe there is no substitute for strong trade union engagement in tackling employment issues of any kind.

The upcoming Collective Bargaining legislation will be a huge help towards unionizing vulnerable workers, and particularly those on such easily-exploitative conditions as Zero Hour Contracts. However, in many of the sectors where such practices are most prevalent, such as retail, trade unions are starting from an enormous disadvantage. Furthermore, many low-income workers may struggle to see the benefits of unionization when every cent counts towards basic necessities.

It may therefore be worth introducing, as a temporary measure, a reduction in the Universal Social Charge paid by employees on Zero Hour Contracts or in low-paid work in general, contingent on their joining a union.

Even though the Universal Social Charge is necessary, it can have a significant negative impact on the lives of low income earners. By offering this incentive, Labour could potentially send out a strong message of understanding and support to the plight of the low-paid, in addition to incentivizing unionization and thus granting them the strongest possible tool to securing real improvements in pay and working conditions.

Attaching such conditions to Zero Hour Contracts may also be an excellent means of curtailing their use by exploitative employers, and of ensuring the concepts of legitimate employee flexibility and protection of workers' rights are not set against one another.

This would ideally serve as a short-term measure whilst proper time and deliberation is taken to determine the proper long-term course of action in relation to Zero Hour Contracts.

2.8 BETTING TAX INCREASE

€1.6 billion is gambled every year online in Ireland. Social Justice Ireland has calculated that a 5% betting tax could raise €100 million. Given that Betting Tax was set at 9% until the term of Charlie McCreevy, we feel this raise is a modest revenue-raising option.

2.9 INCREASE IN PAYE TAX CREDIT

In 2013, inflation outstripped wage rises. Indeed, wages contracted by 0.9% in 2013 according to the CSO. As Labour Youth is aware of the mounting political pressure for “tax relief”, we feel increases in tax credits are the most equitable means of achieving this political goal. Social Justice Ireland estimates that an increase in PAYE tax credit of 5 Euro a week would cost 305 million.

2.10 STANDARD RATE DISCRETIONARY TAX RELIEFS

In recent budgetary processes, tax reliefs have come under discussion, with Budget 2013 bringing in a raft of changes in pension reliefs. Labour Youth believes that this process should be continued to standardise all discretionary tax reliefs, which could raise an estimated 400 million – enough to offset the abovementioned increase in PAYE Tax Credits.

3 POTENTIAL FOR VAT REFORM

3.1 INTRODUCTION

Reform of the system of Value Added Tax is a complicated and potentially daunting prospect. Progressives examining the system are inevitably confronted with the essentially regressive nature of consumption taxes, and may therefore shy away from undertaking significant changes. As the income the state derives from VAT is essential to the funding of our institutions and services, it can be any easy conclusion to draw that the regressive nature of VAT is unavoidable, and best offset by progressive taxation of income and other areas.

However, in these times of real difficulty for many low-earners, for whom it is essential the Labour Party delivers real improvements in living conditions, there are meaningful changes to some of the VAT system's more bizarre and evidently unfair rates. Labour Youth believes that changes to any of the following areas could both help out those struggling to make ends meet and have significant knock-on benefits.

Labour Youth believes that, if there is any merit to the idea of tax relief, this would be the area in which it would best be targeted to help those who have suffered most under years of austerity, falling wages and crippling unemployment.

3.2 GERIATRIC EQUIPMENT

One of the more progressive elements of the Vat system is the exemption of most medical equipment. However, many items necessary for older people attempting to live at home are currently charged at the standard (23%) rate – for example geriatric chairs, walking sticks, incontinence pads, non-oral medications and commodes. In addition to the obvious social justice arguments surrounding the obligation to provide for our elderly citizens, the maintenance of such rates has the effect of placing an extra tax burden on items people require to allow them to continue living in their own homes rather than having to stay in the hospital system.

In the context of the recurrent problems in the state's health budget, it is not difficult to see the merit in easing the task of people who wish to remain living independently. Lowering the rate at which equipment relating to geriatrics is taxed could serve as a subtle means of encouraging wellness and prevention that could potentially ease the burden on the health system further down the line.

3.3 SAFETY EQUIPMENT

At present, adult helmets, lifejackets, and seatbelts are all charged at the standard rate, whilst children's' car seats are charged at the reduced (13.5%) rate.

With the government actively pursuing a well-advised programme of encouraging cycling and the Road Safety Authority mounting a long-running campaign aimed at reducing casualties on our roads, it seems logical that vital safety equipment, especially related directly to the safety of children, should be made as easily-accessible as possible.

3.4 CONTRACEPTION

The current VAT regime sees condoms charged at 13.5%, at a time when STIs are on the rise particularly amongst young gay men. As a general principle, Labour Youth supports the removal of VAT on all forms of contraception as a vital step towards guaranteeing their universal availability.

3.5 CHILDCARE

Time and again, problems arise in this country around how we care for our children. The significant burden placed on working parents in particular by the lack of a universal childcare system do us no favours as a society. Whilst this issue certainly requires a more comprehensive solution, one short-term measure to improve availability and affordability of childcare may lie in reform of VAT.

At present, childcare services are not exempted from VAT if they operate on a for-profit basis. Whilst Labour Youth would not wish to see overreliance on the private sector in this regard as an ultimate destination, within the constraints of the immediately possible it is easy to see the logic in calling for the extension of exemption or zero-rating to such services to encourage increased provision of childcare services for our growing population.

4 HEALTH SCREENING PROGRAMMES

It is a tragic reality that the Irish healthcare system is in crisis. Avoidable conditions are simply not being caught early enough, which costs us billions in future health expenditure. This short-termism needs to end. Labour Youth suggests the introduction of screening programmes for various conditions, such as blindness.

These facts and figures, taken from the NCBI website, speak volumes as to the potential value of such a scheme in the area of blindness:

- Five people go blind every week in Ireland despite 75-80% of blindness being preventable
- Blindness and vision impairment cost the state €205 million in 2010
- The number of blind and vision impaired people in Ireland is currently above 220,000, and is expected to increase by a fifth by 2020
- The cost of blindness is consequently expected to increase to €2.5 billion by 2020
- Investment in cost-effective interventions could save up to €76 million annually

<http://www.ncbi.ie/news/new-report-economic-impact-eye-diseases-ireland-indicates-%E2%82%AC76-million-could-be-saved-annually>

5 FINANCIAL TRANSACTION TAX

In the interest of justice and sustainability, Labour Youth proposes that the Labour Party push for the implementation of a Financial Transaction Tax as proposed by the European Commission. Such a tax would allow us to more easily and efficiently monitor our financial sector, provide additional revenue and reduce the volume of high-risk transactions. It would also serve as a powerful symbolic gesture to the people of Ireland that those who had the biggest hand in creating the financial crisis are being asked to pay.

The proposed rates are far from radical: 0.1% on the trading of bonds and shares, and 0.01% on the value of derivative agreements and 'financial market bets'. Both rates would be charged on both buyers and sellers in each transaction. These rates are minimums and we would remain free to set our own tax rates above these figures in the future.

NERI estimates a Financial Transaction Tax of this nature could bring in between €300-550 million net per annum, without touching the majority of taxpayers on low and middle incomes.

Much has been made of the hostility of the UK towards FTT, and this is indeed not an ideal situation for Ireland. However, we suggest that the very small percentage of transactions taken in tax would likely make the prospect of relocation across the Irish Sea unrealistic for the overwhelming majority of operators in this jurisdiction.

6 WAGE INCREASES

6.1 LABOUR YOUTH POLICY POSITION PAPER: RAISING THE MINIMUM WAGE TO 10E PER HOUR

Labour Youth commends the work the Labour Party has done in the government to protect low-paid workers:

- Restoring the minimum wage to 8.65
- Removing 330,000 low-paid workers from the USC charge
- Restoring the Joint Labour Committees
- Commitment to implement Collective Bargaining
- Ratifying the ILO Convention on Decent Work for Domestic Workers
- Establishing a Low Pay Commission

These policies have made a meaningful positive impact for the lowest-paid workers in our society. It is without question that without Labour in government such policies would not have been delivered for low-paid workers.

However, despite the steadfast work of the Labour Party in government, more needs to be done to enhance living conditions for low-paid workers in our society.

- Report from Social Justice Ireland shows that 16% of those living in poverty are in employment.
- A report from NERI shows that 10% of all employees earned less than €10 an hour in 2009. Increasing the minimum wage to 10E an hour would be an effective means of hugely reducing the percentage of working poor.
- Research from EuroStat shows that 20% of the Irish workforce is low-paid (10th highest rate in Europe)
- CSO statistics show that 1 in 4 workers in Ireland have multiple experiences of deprivation everyday
- Research from the CSO also shows that if the minimum wage had of been kept in line with inflation since 2007 it would be at 9.55E an hour. The minimum wage has not been kept in line with inflation. It is still at 2007 levels. Low-paid workers cannot afford the increased cost of living.

As well low pay having a deleterious effect on the employee and their families, low pay is also bad for business and the government.

Business: The Conservative Mayor of London Boris Johnson stated that his New Year's resolution for 2014 would be to gain more support for a nationwide living wage. His reasoning was that raising wages not only improves living standards but is also good for business because it injects more consumer demand into the economy which results in more profits for businesses. That's why over 100 UK businesses support introducing a living wage because they recognise its benefits to business. This argument is particularly pertinent to Ireland. Research from the OECD shows that Ireland has undergone biggest fall in consumer demand in Europe.

Increasing the minimum wage will help boost demand in the Irish economy. Businesses should not view increasing the minimum wage as a burden but as an investment because it will mean consumers have more to spend. The argument is often used by those on the Right that Ireland has high labour costs. A [study by NERI](#) shows employers' minimum hourly labour costs in Ireland are actually below the European average. Labour costs are the total amount of money the employer pays each hour an employee works. It includes wages and employers' PRSI contributions. In Denmark it costs an employer €39.61 for each employee per hour, while in Ireland it costs €24.57. Figures from EuroStat show that profits in Ireland have increased by 20.7% since 2007 which is faster than anywhere in Europe. Washington state in the US has the highest minimum wage and the highest rate of job growth.

Evidence shows that businesses can afford an increase in the minimum wage and indeed it will be economically beneficial for them. It is important workers feel a dividend of this recovery as this will also be politically beneficial to Labour as this is our core base.

Government: Increasing the minimum wage would also save the government and tax-payers a lot of money. Currently the government is subsidising low-paid workers. Last year the government spent €161 million on the supplementary social welfare allowance, €214 million on family income support and €400 million on rent allowance. These measures support low-income workers with the daily cost of living. Rather than the government spending hundreds of millions each year subsidising low pay, which could be spent building new schools and hospitals, it should increase the minimum wage so low-paid workers are no longer dependent on income supports from the State. Unite the Union estimates that increasing the minimum wage to just 2007 levels would grow the economy by [€1 billion and create 17,000 jobs](#). VAT returns would also increase as there would be more money being spent in the economy.

Increasing the minimum wage to 10E an hour will improve living standards, stimulate economic growth, be good for business and save the government considerable expenditure.

It will also be a politically beneficial move. The Labour Party stands for fair pay and decent work. Increasing the minimum wage will appeal to our core base and promote the need for further wage increases across the economy.