Consolidation on the Revenue Side: Ireland
Gary Tobin, DG ECFIN Workshop - 18 October 2012
Path to Recovery in Ireland

Three pillars to economic recovery:

1. Restore order to public finances
2. Recapitalise and restructure the banking system
3. Restore competitiveness and return economy to sustainable growth
Front Loaded Revenue Consolidation 2009-2015
Composition of Tax Receipts

- Customs & Excise
- Capital Taxes
- Stamps
- Income Tax
- Corporation Tax
- Valued Added Tax
Performance of Exchequer Tax Receipts from Peak

Peak years for various tax revenues
## Fiscal consolidation programme on track

Medium-term consolidation framework

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected General Government Deficit (% of GDP) – as per April 2012 SPU</th>
<th>Total Adjustment (€ billion) – as per November 2011 MTFS</th>
<th>Main Consolidation Form</th>
<th>Estimated Saving (€ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>7.5</td>
<td>3.5</td>
<td>Expenditure</td>
<td>2.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Revenue</td>
<td>1.25</td>
</tr>
<tr>
<td>2014</td>
<td>4.8</td>
<td>3.1</td>
<td>Expenditure</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Revenue</td>
<td>1.1</td>
</tr>
<tr>
<td>2015</td>
<td>2.8</td>
<td>2.0</td>
<td>Expenditure</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Revenue</td>
<td>0.7</td>
</tr>
</tbody>
</table>
Stabilisation in Ireland’s debt level


- 2007: 20%
- 2008: 40%
- 2009: 60%
- 2010: 70%
- 2011: 80%
- 2012: 90%
- 2013: 100%
- 2014: 120%
- 2015: 120%

Legend:
- Sovereign Related Debt
- Banking Related Debt
OECD Hierarchy of Taxes

Which tax affects economic growth most/least?

Broadening the Tax Base – Case Study

Universal Social Charge

What is the USC?

- USC is a Tax
- It applies on gross income at progressively higher rates
- It has few exemptions or reliefs
- It replaces the old income levy and health levy

Why was it introduced?

- To simplify the tax system (from 4 to 3)
- To remove poverty traps
- To widen the Tax Base (from 1.4m to 1.9m)
- 1% increase in USC and raises €800m
- To reduce the Top Marginal Rate
- USC Review in 2011
Case Study: Jobs Initiative 2011: targeted reduction in VAT

**All JI items -1.3%, Inflation +1.7%**

<table>
<thead>
<tr>
<th>Category</th>
<th>June 2011 – June 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cinemas, theatres, musicals, museums, art galleries</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Hairdressing services</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Hot take away foods and hot drinks</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Hotels and other accommodation</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Meals out including rail car dining</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Newspapers</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Sport</td>
<td>-4.5%</td>
</tr>
<tr>
<td>All 9% items</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Headline CPI</td>
<td>1.7%</td>
</tr>
<tr>
<td>Underlying CPI</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

**QNHS**

**Impact**
- Focus on Accommodation and Food Services – 70% of JI expenditure
- 114,500 jobs (seasonally adjusted) in Q2 2012
- 108,300
- +6000 jobs (+6%)
Tax Measures: A Lot Done But Still Some Work in Progress

Work in progress

Tax Measures to Date

- Tax Bands and Credits
- Non Indexation
- Income Levy / Universal Social Charge (USC)
- Tax Expenditures
- Pension levy
- Capital taxes
- Jobs Initiative: VAT Changes

Funding programme 2013

Revenue measures to raise at least €1.25 billion, including:

- A broadening of personal income tax base
- A value-based property tax
- A restructuring of motor taxation
- A reduction in general tax expenditures
- An increase in excise duty and other indirect taxes

Other Issues

Property Tax

- Expert Group – “To consider the design of a property tax to be approved by Government to replace the household charge”

Social Insurance (PRSI)

- “Further broadening the base for PRSI to cover rental, investment and other forms of income from 2013” (Budget 2012)

Tax Policy Challenges

Political vs. Funding Constraints

- Value based property taxes
  - Unprecedented policy & logistical challenge

- Minimise harm to growth
  - OECD Hierarchy of Taxes
  - Base broadening
  - Indirect and capital taxes
Ireland leads recovery in peripheral sovereign yields

Selected 2yr Sovereign Bond Yields

Source: Bloomberg

5 July 2012:
NTMA Sells €500m of 3 month bills:

26 July 2012:
NTMA sells €4.2bn of 5 year and 8 year bonds.
NTMA switches €1.04bn of 2013 and 2014 bonds.

23 August 2012:
NTMA sells €1bn of new amortising bonds.
Concluding Remarks

- Progress to Date?

**Tax Issues:**

- Fairness / Progressivity
- Broadening the Tax Base
- Tax Expenditures
- Capital Taxes (Property)
- Minimising Harm to Growth