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Taxing Property:
Suggestions for Reform

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ABSTRACT

This paper shows that the Republic of Ireland's per capita receipts from all taxes and social security contributions are lower than the average for a 'peer group' of high-income EU countries. Per capita taxes on capital are close to the peer group average due to Ireland's relatively high level of receipts from corporation tax. However, Ireland under-taxes stocks of capital relative to the peer countries. I consider potential reforms in the area of taxation of capital stocks. Suggested reforms are consistent with the key objectives of simplicity, equity and efficiency. There are strong theoretical arguments in favour of recurrent taxes on immovable property. With this in mind, I argue that there is a strong case for increasing the basic rate annually over a 10 year period and for regularly rebasing property values to their actual levels. In addition, I caution against proposals to increase the complexity of the tax by applying different rates in different local authorities. Hardship issues are best resolved through a deferment system for low-income households. I also discuss the advantages and disadvantages of introducing a tax on net wealth. Wealth taxes are particularly attractive in distributional terms. The structure that will best reconcile the tension between our main objectives is one with: A) either zero or very few exemptions and reliefs, B) a relatively high tax-free allowance or threshold, and c) a flat marginal rate that is set at a low level. I argue for reforms to Capital Acquisitions Tax, identifying in particular the generosity of existing reliefs as undermining the principle of horizontal equity between taxpayers. Finally, an important principle is that all income, whether from labour or capital, should receive equal treatment. One implication is that capital gains should count as income for tax purposes.

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1 . INTRODUCTION

The key objectives of any tax system are to raise a meaningful amount of revenue for the exchequer while at the same time minimising administration and compliance costs, reducing inequality, minimising economic distortions, and changing behaviour. It is challenging to design a good taxation system that simultaneously adheres to the core principles of equity, efficiency and simplicity.

This paper focuses on taxes on stocks of capital, in the Republic of Ireland.[1] We first compare Ireland's aggregate tax revenue[2], and its composition, to that of other similar countries. It turns out that Ireland's per capita receipts from all taxes and SSCs is below the average for the 'peer group' of high-income European Union countries.

The rest of the paper proceeds as follows: Section 2 of the paper compares aggregate and decomposed tax revenues in Ireland with that of the EU and a core group of high-income 'peer' countries. Section 3 then discusses the usually harmful impact of tax expenditures in terms of horizontal equity, vertical equity and complexity. Section 4 offers some proposals for reforming how we tax stocks of capital. Crucially, these taxes tend to be growth friendly, and if designed correctly are likely to reduce wealth inequality. Section 5 concludes.

As a proportion of economic output[3], Ireland collected over €1.5 billion less than the EU average in receipts from stocks of capital in 2016. Most of this gap relates to recurrent (e.g., annual) taxes on immovable property. The introduction of the Local Property Tax (LPT) was an important tax reform. There are strong theoretical

[1] Henceforth 'Ireland'.
[2] For our purposes when we refer to taxation we mean all taxes and Social Security Contributions (SSCs)
[3] Using GNI* for Ireland and GDP for the EU.

arguments in favour of recurrent taxes on immovable property, and a strong case for increasing the basic rate annually over a 10-year period and for rebasing property values to their current levels. In addition, I caution against proposals to increase the complexity of the tax by applying different rates in different local authorities. Policymakers should scrap the current equalization system, while hardship issues are best resolved through a deferment system for low-income households.

I also discuss the advantages and disadvantages of introducing a tax on net wealth. Wealth taxes are particularly attractive in distributional terms and taxing wealth and the wealthy can be an important element of social solidarity. However, Ireland should avoid pursuing the type of wealth tax model that has tended to prevail internationally, i.e. a model with multiple exemptions and reliefs, with a low threshold, and with a high marginal rate. With regard to a wealth tax, the structure that will best reconcile the tension between our main objectives is one with: A) either zero or very few exemptions and reliefs[4], B) a relatively high tax-free allowance or threshold, and c) a flat marginal rate that is set at a low level.

Arguably the most important fiscal tool for redistributing wealth is Capital Acquisitions Tax (CAT), which is the tax on inheritances and gifts. Inheritances and other endowments explain a large proportion of wealth inequality. As it happens, the generosity of exemptions and reliefs on business and agricultural property, combined with the highest tax-free threshold, makes it possible to inherit over €3 million without attracting any CAT liability. This clearly undermines horizontal equity between taxpayers and enables the tax-free transfer of substantial amounts of assets across generations. Policymakers should significantly scale back the value of these reliefs, and, in addition, there should be a ceiling on all CAT reliefs.

[4] For practical reasons it would be necessary to exempt certain asset classes, for example human capital.

2. REVENUE COMPARISONS AND CAPITAL TAXATION

2.1 Fiscal capacity

We begin by comparing Ireland's aggregate tax revenue, including the composition of that revenue, to the scale and composition of revenue in other similar countries. It is common to assess the aggregate 'tax-take', a concept that encompasses all taxes and Social Security Contributions (SSCs), as a ratio of revenue to Gross Domestic Product (GDP). GDP, as the most common measure of total economic output, is a convenient proxy for the potential tax base, and as such, a proxy for an economy's fiscal capacity.

However, GDP as a proxy for fiscal capacity comes with major health warnings in the case of Ireland. The main problem with using GDP as a comparator arises from the very large share of foreign multinational profits in the economy. The expectation is that multinational profits flowing out of the country will provide a lower, albeit not zero, tax yield per euro of income compared to other components of GDP.

In recent years Ireland's headline GDP has increasingly become detached from actual economic activity occuring within Ireland itself. This detachment notably intensified in 2015 when the gross capital stock increased by €300 billion in a single year. This was in the main due to the on-shoring of intangible assets for tax planning reasons. Third country contract manufacturing previously allocated to other countries were now part of Irish GDP and the outcome was a reported increase in real GDP of 26.3 per cent – while statistically valid it was wildly implausible as an indicator of growth in the Irish economy. One consequence was that GDP-based comparisons between Ireland and other countries became significantly less meaningful.

As a response to these developments, Ireland's Central Statistics Office (2017) developed a new indicator called Modified Gross National Income, or GNI*, as a more meaningful measure of output activity in the state. GNI* was designed to exclude globalization effects that were disproportionately affecting the

measurement of the size of the economy.

While GNI* better captures and isolates the nationally based economic activity that forms the basis of much taxable income in the state, it is still the case that the modified components of GDP have non-zero tax revenue associated with them. This is particularly true in relation to corporate tax revenue, which constitutes a major source of income to the state. Irish taxation as a percentage of GNI* is therefore not a perfect comparison to tax as a percentage of GDP in the European Union (EU) as a whole. Ireland's internationally comparable fiscal capacity probably lies somewhere in excess of GNI*, but significantly below GDP.

2.2 Comparing Ireland to 'peer' economies

The potential tax base is comprised of that which we can tax. Tax policy should not just be about the advantages and disadvantages of any individual tax. It should consider the overall tax package (Weale, 2010) including its composition, as well as the aggregate size of the tax take relative to that of the overall economy. Governments obtain all of their tax receipts (including social security contributions) from one or more of three tax bases – A) consumption, B) labour, and C) capital.[5] Alternatively, we can categorise tax receipts as coming from income, profits, expenditure, property or wealth.

On balance, Ireland's bespoke GNI* indicator of economic output, is probably a reasonable basis for comparison with other countries GDP, at least when it comes to assessing the scale of taxation on consumption and labour relative to fiscal capacity. This is because the component of GDP in excess of GNI* has limited direct relation to domestically based employment and consumption activity. On the other hand, GNI* is likely to underestimate Ireland's fiscal capacity in relation to taxation on capital.

As an alternative to using GDP or GNI*, Paul Goldrick-Kelly and Tom McDonnell (2017) have examined tax revenues in different countries scaled according to

[5] Categorising taxes in this way is a simplification as hybrid categories are common. For example, personal income tax comprises taxable income from both labour and capital.

contributions made per capita. Specifically, they compare per capita receipts from taxes and social contributions in the 11 EU 'peer' countries with GDP per capita in excess of €30,000[6] and find that Ireland had the lowest receipts of all 11 countries. The net difference between Ireland and the population-weighted average for the peer countries was €1,757 per person, close to €8.1 billion if scaled over the Irish population.

The difference in receipts is primarily a function of the lower social contributions on labour income in Ireland (PRSI receipts). Goldrick-Kelly (2019) provides updated estimates for 2017 showing Ireland rising to 10th place out of 11 countries, above the United Kingdom. The difference in receipts between Ireland and the population-weighted average was €1,260 per capita.

Goldrick-Kelly and McDonnell (2017) find that per capita taxes on capital in 2015 were €3,129 in Ireland, and a population-weighted €3,150 in the 10 peer countries. That amounts to a difference of less than 1 per cent. However, once they excluded corporate tax receipts they found that per capita tax receipts on capital fell to €1,630 in Ireland versus €2,187 in the peer countries. The difference in these receipts of €557 amounted to €2.6 billion scaled over the population.

Lower receipts from capital and business income paid by the self-employed accounted for €0.9 billion of the total difference. Fully half of the difference (€278 per person and €1.3 billion over the population) was attributable to lower receipts from capital stocks (i.e. wealth).[7] Of this, 'current taxes on capital', which encompass property taxes paid by households and net wealth taxes, explained €225 per capita, or over €1 billion of the difference.

Table 2.1 shows aggregate revenue comparisons for the 2007 to 2016 period. Ireland's revenue ratio in 2016 was 23.3 per cent of GDP and 36.2 per cent of GNI*. The revenue ratio in the EU was 38.9 per cent of GDP. Ireland's revenue ratio

[6] Henceforth, we refer to these countries as the 'peer countries'.
[7] Goldrick-Kelly (2019) estimates that relative to the peer country population-weighted average, lower receipts in Ireland from capital stocks amounted to €323 per capita in 2017, or €1.54 billion when scaled over the population.

declined marginally on a GNI* basis between 2007 and 2016, while the EU's increased marginally on a GDP basis.

Table 2.1 Tax Revenue Comparisons, Ireland and EU, (% GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total revenue										
Ireland	30.8	29.0	28.1	27.8	28.0	28.3	28.7	29.0	23.4	23.3
Ireland (GNI*)	36.7	34.7	35.4	36.2	37.8	39.2	37.7	38.1	38.1	36.2
European Union	38.0	37.8	37.1	37.2	37.7	38.3	38.7	38.7	38.5	38.9
By type										
Indirect taxes										
Ireland	13.2	12.1	10.9	10.9	10.5	10.6	10.8	11.0	8.7	8.7
Ireland (GNI*)	15.7	14.5	13.7	14.2	14.2	14.7	14.2	14.5	14.2	13.5
European Union	13.1	12.7	12.6	13.0	13.2	13.4	13.5	13.6	13.6	13.6
Direct taxes										
Ireland	13.4	12.4	12.0	11.8	12.3	12.9	12.9	13.0	10.8	10.7
Ireland (GNI*)	16.0	14.8	15.1	15.4	16.6	17.9	16.9	17.1	17.6	16.6
European Union	13.4	13.3	12.4	12.3	12.5	12.9	13.2	13.1	13.2	13.3
Social Contributions										
Ireland	4.1	4.4	5.2	5.0	5.3	4.8	5.0	4.9	3.9	3.9
Ireland (GNI*)	4.9	5.3	6.6	6.5	7.2	6.6	6.6	6.4	6.3	6.1
European Union	11.5	11.8	12.2	12.0	12.1	12.1	12.2	12.1	11.9	12.1
By function										
Consumption										
Ireland	11.0	10.5	9.8	9.9	9.5	9.5	9.8	9.9	7.8	7.8
Ireland (GNI*)	13.1	12.6	12.3	12.9	12.8	13.2	12.9	13.0	12.7	12.2
European Union	10.6	10.3	10.4	10.7	10.9	10.9	11.0	11.0	11.0	11.1
Labour										
Ireland	10.7	11.2	12.2	12.0	12.8	12.8	12.8	12.8	9.9	9.8
Ireland (GNI*)	12.7	13.4	15.4	15.6	17.3	17.7	16.8	16.8	16.1	15.2
European Union	18.4	18.8	19.2	19.1	19.1	19.4	19.6	19.4	19.1	19.3
Capital										
Ireland	9.2	7.3	6.1	5.9	5.8	6.0	6.1	6.3	5.8	5.7
Ireland (GNI*)	11.0	8.7	7.7	7.7	7.8	8.3	8.0	8.3	9.4	8.9
European Union	9.0	8.5	7.6	7.5	7.7	8.0	8.1	8.2	8.4	8.4

Sources: Eurostat (2018), CSO (2018), NERI calculations

Notes: Rounding affects totals. As of 2016, Irish GNI* (€175.827 billion) was 64.3 per cent of Irish GDP (€273.238 billion). The same ratio was 84.0 per cent in 2007._
The relative gap in total revenue in 2016 between Ireland (GNI* basis) and the mean for the EU28 (GDP basis) amounts to €4.75 billion

Ireland relied upon taxes on consumption, which are principally Excise based taxes and VAT, for 33.6 per cent of its total tax take in 2016. This was higher than the 28.5 per cent in the EU as a whole. Ireland, at 24.7 per cent, also had a higher Implicit Tax Rate (ITR)[8] on consumption than the EU's 20.6 per cent. Capital taxation was 24.3 per cent of total taxation in Ireland, somewhat higher than the EU's 21.7 per cent share.

[8] The ITR is the ratio of receipts to the potential tax base. We can therefore think of it as a measure of how heavily we are taxing something.

Conversely, the EU relied upon taxes on labour income (49.8 per cent of total taxation) much more than Ireland (42.1 per cent) – a gap of 7.7 percentage points. The ITR on labour was also higher in the EU than in Ireland – 36.1 per cent compared to 32.7 per cent.

The discrepancy in labour taxation between the EU average and Ireland is explained by the difference in the taxation of income from employment paid by employers and the non-employed. Revenue from employment income paid by employers comprised 19.5 per cent of total taxation in the EU but just 11.0 per cent in Ireland. More strikingly, revenue from employment income paid by non-employed was 5.0 per cent of total taxation in the EU but just 0.5 per cent in Ireland.

The evidence shows that, relative to the EU, Ireland is a low tax regime in relation to labour taxes, at least when we broaden the concept of labour taxes to include SSCs. On the other hand, Ireland generates more revenue from consumption and capital on a GNI* basis than the EU does on a GDP basis. Ireland also has a higher ITR on consumption. Clearly, Ireland is not a low tax regime when it comes to consumption taxes. However, the case of capital taxation requires a more nuanced assessment.

Table 2.2 provides aggregate revenue comparisons for capital taxation in Ireland and the EU. Capital revenue in Ireland in 2016 was 5.7 per cent of GDP and 8.9 per cent of GNI*. Revenue was 8.4 per cent of GDP in the EU. Notably, corporate income tax comprised 11.6 per cent of total taxation in Ireland in 2016 compared to 6.9 per cent in the EU28. Only the tax havens of Malta, Cyprus and Luxembourg were more reliant on corporate income taxes as a proportion of total receipts. Excluding taxes on the income of corporations, Ireland's revenue ratio in 2016 was 32.0 per cent on a GNI* basis. This compares to 36.2 per cent of GDP in the EU.

Table 2.2 Capital Taxation, Ireland and EU, (% GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total capital revenue										
Ireland	9.2	7.3	6.1	5.9	5.8	6.0	6.1	6.3	5.8	5.7
Ireland (GNI*)	11.0	8.7	7.7	7.7	7.8	8.3	8.0	8.3	9.4	8.9
European Union	9.0	8.5	7.6	7.5	7.7	8.0	8.1	8.2	8.4	8.4
By function										
Income of corporations										
Ireland	3.4	2.8	2.3	2.4	2.2	2.3	2.4	2.4	2.6	2.7
Ireland (GNI*)	4.1	3.3	2.9	3.1	3.0	3.2	3.1	3.2	4.2	4.2
European Union	3.3	2.9	2.3	2.4	2.5	2.6	2.6	2.5	2.6	2.7
Income of households										
Ireland	2.0	1.3	0.9	0.8	0.7	0.8	0.7	0.7	0.9	0.9
Ireland (GNI*)	2.4	1.5	1.1	1.0	0.9	1.1	0.9	0.9	1.5	1.4
European Union	0.9	0.9	0.8	0.8	0.8	0.9	1.0	1.0	1.1	1.0
Income of self-employed										
Ireland	1.1	1.1	1.2	1.2	1.0	1.0	1.0	1.0	0.8	0.8
Ireland (GNI*)	1.3	1.3	1.5	1.6	1.3	1.4	1.3	1.3	1.3	1.2
European Union	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Stock of capital										
Ireland	2.6	2.0	1.7	1.6	1.8	1.9	2.0	2.1	1.5	1.2
Ireland (GNI*)	3.1	2.4	2.1	2.1	2.4	2.6	2.6	2.8	2.4	1.9
European Union	2.7	2.7	2.6	2.4	2.5	2.6	2.7	2.8	2.8	2.8
Property taxes										
Recurrent taxes on immovable property										
Ireland	0.6	0.7	0.8	0.8	0.8	0.8	1.0	1.0	0.7	0.6
Ireland (GNI*)	0.7	0.8	1.0	1.0	1.1	1.1	1.3	1.3	1.1	0.9
European Union	1.2	1.2	1.2	1.4	1.4	1.6	1.6	1.6	1.6	1.6
Other taxes on property										
Ireland	1.8	1.1	0.7	0.6	0.8	0.9	0.8	1.0	0.6	0.5
Ireland (GNI*)	2.2	1.3	0.9	0.8	1.1	1.2	1.0	1.3	1.0	0.8
European Union	1.1	1.1	0.8	0.8	0.9	0.8	0.9	0.9	1.0	1.0

Sources: Eurostat (2018), CSO (2018), NERI calculations
Note: Rounding affects totals.

Once we exclude taxes on the income of corporations, capital revenue in 2016 falls to 4.7 per cent of GNI* in Ireland, and 5.7 per cent of GDP in the EU (see Table 2.2). Taxes on the capital income of households comprise 3.8 per cent of total taxation in Ireland and 2.6 per cent in the EU, whereas the equivalent figures for taxes on the capital income of the self-employed are 3.6 per cent in Ireland and 4.8 per cent in the EU.

Taxes on the stock of capital (i.e. wealth) comprised 5.3 per cent of total taxation in Ireland (€3.41 billion) in 2016 and 7.3 per cent of total taxation in the EU. Taxes on property comprised the bulk of the taxes on capital stocks at 4.7 per cent (€3.02 billion) and 6.8 per cent respectively. Decomposing this further, recurrent taxes on

immovable property were 2.5 per cent (€1.63 billion) of total taxes in Ireland compared to 4.1 per cent in the EU.

In output terms, recurrent taxes on immovable property were 0.9 per cent of Irish GNI* (0.6 per cent of GDP) and 1.6 per cent of the EU's GDP. This amounts to a gap of €1.2 billion. Ireland is also relatively low in terms of its receipts from other taxes on property, at 0.8 per cent of GNI* in Ireland versus 1.0 per cent of GDP in the EU, a difference of close €350 million. Overall, in relative economic output terms Ireland collects over €1.5 billion less than the EU in receipts from stocks of capital in 2016 (1.7 per cent of GNI* in Ireland compared to 2.8 per cent of GDP in the EU).

The Revenue Commissioners (2019) provide more up-to-date data for capital tax receipts in Ireland. Receipts from Capital Acquisitions Tax (CAT), which is the tax on inheritances and gifts, were €522 million in 2018 and came largely from inheritances. Receipts from the Local Property Tax (LPT), which is a recurrent (annual) tax on immovable property, were €455 million in 2018. Receipts from Stamp Duty were €1.45 billion in 2018. Stamp Duty is a tax on the purchase of capital assets. Finally, receipts from Capital Gains Tax (CGT), which is a tax on the capital gain (profit) on the disposal of an asset, were €996 million in 2018. Cumulative receipts from these four sources amounted to €3.4 billion.

3. TAX EXPENDITURES

Tax expenditures are a type of public spending that benefits particular interest groups by treating certain activities or groups in a preferential way. The main distinction with public spending as commonly understood is that the preferential treatment for the recipient group comes in the form of reduced taxes instead of in the form of direct subsidies or other spending by a government department. Nevertheless, we should see the tax expenditure, or tax break, as analogous to a government-spending program. Each tax break will have its own costs and benefits and these costs and benefits will not be uniform across the population.

Public spending in the form of tax expenditures tends to deliver larger benefits to higher income households. Many reliefs allow a tax deduction at the individual's marginal rate of income tax. Such reliefs disproportionately benefit those with the highest incomes. Tax expenditures therefore tend to undermine the principle that individuals should pay tax in proportion to their ability to pay (Combat Poverty, 2005). The impact of these types of tax relief is to reduce the progressivity and equity of the tax system and to do so in a way that is less transparent than direct public spending. Certain tax reliefs may be equity improving but such examples are likely to be limited to reliefs on the consumption of necessities. According to James Poterba (2010):

"*Tax expenditures are….effectively camouflaged expenditure programmes, and…their true effects are not obvious*"

In contrast, the benefits of public service provision such as health care and education have a more even distribution across the population and are more transparent. Poterba adds:

"*Because tax expenditures narrow the tax base, it is necessary to set average tax rates higher than they would otherwise have to be. A key challenge for economists and other policy analysts is to review tax expenditures and to ask is there a justification for these exemptions and deductions*"

In general, a government that chooses a strategy of protecting or introducing tax breaks, while increasing other taxes and cutting other areas of public spending, is

actively choosing to favour better off households at the expense of the rest of the population. According to the Combat Poverty Agency (2005):

"...there is a double inequity associated with tax reliefs. On the one hand they reduce the tax base, thereby imposing higher tax burdens on average households not in a position to avail of many tax-relief schemes, and on the other hand they provide high earners with opportunities to avoid paying tax."

3.1 Tax expenditures and economic efficiency

The standard rationale given for tax expenditures is to encourage a particular economic activity. However, there is often a deadweight loss associated with tax expenditures to the extent they subsidise economic activity that would have happened anyway in the absence of the tax break. Tax expenditures change the incentive structure for households and firms and therefore influence the behaviour of households and firms.

The behavioural changes induced can have positive and negative impacts on both short-run and long-run economic growth and also on overall societal wellbeing. The behavioural effects of tax expenditures can also have unintended consequences. For example, the variety of property related tax breaks in place in Ireland during the 2000s incentivised speculation in property at the expense of saving and at the expense of investment in productive assets. This is very likely to have been a factor in the pre-2008 asset price boom. As such, the tax expenditures inadvertently contributed to the severe balance sheet recession that followed.

In general, tax breaks can negatively affect growth by distorting allocative efficiency, by creating inefficiencies in production and consumption, and by diverting economic activity toward rent-seeking behaviour. More positively, well targeted tax breaks can have beneficial impacts over the long-term to the extent they reduce negative externalities such as pollution, and also to the extent they encourage activities such as basic research that generate positive externalities.

3.2 Cost benefit analysis and sunset clauses

Even where there is a clear public policy case for supporting a particular group, or activity, through tax expenditure there still needs to be a rigorous social cost benefit analysis of the overall effect of the proposed tax expenditure. The results of this social cost benefit exercise should be transparent with the winners and losers clearly identified months in advance of the proposed tax break becoming law. Policymakers should measure the social cost benefit ratio for the tax break against the cost benefit ratio for direct public subsidy of the group or activity. Tax breaks on capital stocks and stock-generated income are likely to be particularly regressive given the unequal distribution of wealth and tax breaks such as exemption of the principal private residence from CGT are difficult to justify from an equity perspective.

In addition, all tax breaks should have a built-in sunset clause of no longer than three years, which automatically triggers unless the Dáil actively renews the tax break. An updated and transparent cost benefit analysis should form part of the process of review in advance of the tax break's expiration with continuation of the measure made contingent upon the results of the cost benefit analysis.

4. TAXING PROPERTY

Capital taxation broadly refers to all taxes on assets including taxes on the income derived from those assets. There is a distinction between taxes on income derived from capital and taxes on the capital stock itself. Taxes on capital income include taxes on the income or profits of corporations; taxes on the income of the self-employed; and personal income taxes paid on the capital income of households, for example dividends, interest, rents and royalties.

Property taxes are taxes levied on one or more types of asset. Eurostat (2013) identifies six broad categories of property tax. These are:

1. Recurrent taxes on net wealth (e.g. Net Wealth Taxes)
2. Recurrent taxes on immovable property (e.g. Residential Property Taxes and Land Taxes)
3. Other recurrent taxes on property (e.g. Domicile Levies)
4. Other non-recurrent taxes on property (e.g. Capital Levies[9])
5. Estate, inheritance and gift taxes (e.g. Capital Acquisitions Tax)
6. Taxes on financial and capital transactions (e.g. Stamp Duty)

Domicile Levies and Capital Levies tend to be of limited significance. Ireland's Domicile Levy applies to Irish domiciled individuals whose worldwide income exceeds €1 million, whose Irish located property is greater in value than €5 million, and whose Irish Income Tax in a year was less than €200,000. The amount of the levy is €200,000 per year and offset by the amount of Irish Income Tax paid in the year. The intent of the Domicile Levy is to apply a minimum level of taxation on high net worth individuals that may be engaged in aggressive tax planning. However, it raised just €1.4 million in 2016 from 10 individuals.

Capital Levies are once off taxes on capital assets. Such levies tend to be rare in practice, and used only in exceptional once-off circumstances such as following a war or other crisis. See Eichengreen (1989) and Bach (2012) for discussions on the

[9] Capital levies are once off taxes on capital assets. See Eichengreen (1989) and Bach (2012) for discussions on the use of capital levies in theory and practice.

use of capital levies in theory and practice.

The rest of this section will focus on the four main types of property tax and in all cases the key objectives should be to

A. Raise a meaningful amount of revenue for the exchequer;
B. Adhere to the principles of horizontal equity[10] and vertical equity[11] within the tax system;
C. Minimise administration and compliance costs while assisting the fight against tax evasion and avoidance; and
D. Minimise the distortion to savings and investment decisions and minimise the risk of capital flight.

4.1 Recurrent taxes on immovable property

Residential property is a major component of wealth and the introduction in Ireland of the Local Property Tax (LPT) in 2013 was a positive and necessary reform. Almost all advanced economies have some recurrent tax on immovable property. The economics literature generally considers taxes on immovable property and taxes on land as the least distorting to economic activity and the least damaging to economic growth. These taxes are also very difficult for the super-wealthy to avoid because the underlying asset lacks mobility and is impossible to hide[12].

Evidence from the OECD (2010) indicates that the tax structure influences growth performance. In particular, the OECD examined the impacts of various taxes from an economic efficiency perspective and found that recurrent taxes on immovable property are the least damaging (i.e. most beneficial) to long-run per capita GDP growth prospects.

[10] Horizontal equity is the idea that we should treat persons or groups with the same taxable capacity, or ability to pay, equally, and that they should pay the same amount of tax. Exemptions, reliefs, or favourable valuations or rates all undermine horizontal equity. Differential treatment of capital and labour also undermines horizontal equity.
[11] Vertical equity is synonomous with the principle of progressive taxation – i.e. that those with greater taxable capacity should bear a proportionally heavier tax burden.
[12] According to the OECD (2011), the imputed rent from owner occupation is generally not subject to tax in OECD countries. They argue that the associated distortion of consumption and investment decisions is likely to harm not only welfare but also growth prospects.

There are strong theoretical arguments in favour of recurrent taxes on immovable property (the LPT in the Irish case):

a. LPTs have been shown empirically to have a minimal negative impact on GDP; in other words, it is a growth-friendly tax;
b. LPTs are very difficult to avoid or evade;
c. Unlike transaction-based property taxes, LPTs are reasonably stable throughout the economic cycle and therefore provide a reliable tax base;
d. LPTs do not by and large penalise productive activity;
e. Taxes on immovable assets are particularly appropriate in the context of increasing globalisation where the factors of production are increasingly mobile;
f. LPTs do not create a barrier to labour mobility (unlike transaction based property taxes which potentially add an additional cost to moving for economic reasons);
g. LPTs can encourage investors to redirect capital to more productive sectors of the economy;
h. LPTs can be progressive if correctly designed and
i. LPTS enable the State to recoup some of the costs of public infrastructure provision through the increased (and unearned) value that will accrue to local housing.

As property taxes are taxes on the ownership of property, they will disproportionately fall on wealthier households. Even so, the strongest argument against an LPT is the potential to cause economic hardship in a small number of cases. This is of course a concern common to almost all forms of taxation – not just LPTs – and does not invalidate in itself the many arguments in favour of property taxes. The hardship argument is best resolved through a deferment system for low-income households. Such a system is already in place in Ireland with interest charged on the deferred amount. The deferred amount along with the accumulated interest is payable on the sale or transfer of the property. This resolves the hardship problem while simultaneously protecting government revenue over the

long-term.

There is a secondary argument that the family home is not wealth. However, this ignores the fact that the principal residence is a capital asset that the owner can buy or sell and that accounts for significant inter-generational wealth transfer. In addition, owning a house allows owners greater access to financial markets (e.g. for loans). Over the long term, people who rent often pay as much, if not more, on annual housing costs as people who purchase housing, but only the homeowner ends up with a valuable asset.

To ensure horizontal equity between households the tax must be a fixed proportion of value. In other words, two taxpayers with properties worth €250,000 should pay the same amount of property tax regardless of geographic or other factors. A deferment does not break this principle as it merely changes the timing of the payment.

Reduced or indeed increased rates set at a local level and applied consistently across an entire local area could still be justified provided the entirety of the revenue from the tax is ring-fenced for use at that local level. A higher rate should yield better services and vice versa. However, in the case of a reduced local rate, the central government should not then increase its own subsidy to the local authority area in order to offset the lost revenue. The taxpayer in the local area with the lower rate is exchanging a lower property tax payment with reduced public services and facilities in the area.

Much of a property's value and the benefits accruing to its owner derives from the property's location including its proximity to infrastructure (e.g. rail and roads), as well as other public services (e.g. schools and hospitals) paid for or subsidized out of general taxation. Local authority revenue excluding grants from central government is a small fraction of total general government revenue. Clearly, the overall impact of a lower property tax rate on a local area will not remotely lead to a commensurate percentage decline in the overall value of public services available to residents in the local area. As such, the argument for allowing significant local

deviations from a nationally set property tax rate is limited.

The principle of vertical equity could justify a progressive structure involving higher tax rates on more valuable properties. On the other hand, too many rates might lead to an overly complicated structure and violate the principles of simplicity and transparency. Too many rates would also increase the sensitivity of the LPT yield to property price fluctuations.

The Irish LPT has twenty valuation bands. The lowest is from €0-100,000, the second to nineteenth valuation bands are each €50,000, and the highest valuation band is for properties over €1 million. A standard tax rate of 0.18 per cent applies to the mid-point of the band to calculate the tax liability. Thus, a property worth €130,000 is valued at the mid-point of the €100,001 to 150,000 range, i.e. €125,000, and we then apply the 0.18 per rate to arrive at an annual liability of €225. Properties valued over €1 million are chargeable on actual market value at a higher rate of 0.25 per cent. As such, the basic system adheres to the principle of horizontal equity, and with the higher rate, incorporates an element of vertical equity.

Local authorities have the flexibility to vary the rate up or down to a maximum of 15 per cent. In practice, nine of the thirty-one local authorities applied a locally adjusted rate in 2019. As such, households with the same value property in different local authority areas experience different liabilities. This violates the principle of horizontal equity.

A further complication is that 20 per cent of the yield in each local authority goes to an equalisation fund that shares out receipts between authorities - meaning that in some cases not all the benefit of the LPT revenue goes to the local authority area. Given that government grants and subsidies comprises a substantial proportion of local authority funding, and that policymakers can easily scale this proportion upwards or downwards, it is unclear why an equalisation fund needs to exist at all. The equalisation fund simply adds an unnecessary layer of complexity.

Scrapping the equalisation fund and retaining all revenue at the local level would constitute a positive reform to the LPT. This would reduce localized opposition to the tax and it would simplify the structure of local authority funding. If additional funding is then required to ensure that local authorities have sufficient baseline funding to account for demographic and other factors then that funding should come directly from central government rather than from other local authorities.

Evidence suggests that recurrent taxes on immovable property (known as RP taxes) are generally more growth-friendly than other taxes and this in turn suggests that a greater reliance on these types of taxes will be growth enhancing. Ireland got just 2.6 per cent of aggregate tax and SSC revenue from this type of tax in 2017, whereas the average for the EU was 4.0 per cent. Irish revenue from RP taxes was 1.0 per cent of GNI* in 2017, while EU revenue from RP taxes was 1.6 per cent of GDP.

Ostensibly, there therefore appears significant scope to shift the composition of revenue away from other forms of taxation in order to improve Ireland's growth potential, or alternatively, to increase RP taxes to fund increases in public spending. Table 4.1 shows that commercial rates accounted for 71.7 per cent of RP taxes in 2017 compared to just 28.3 per cent for taxes on residential property. This suggests that most of the potential scope for increase is in relation to the LPT.

Table 4.1 Recurrent taxes on immovable property in Ireland, 2017, € millions

Total revenue	1,775
Commercial Rates	1,273
Local Property Tax	429
Local Property Tax (Vacant Dwellings)	48
Non Principal Private Residence Charge	25

Sources: Eurostat (2019)

Recurrent taxes on immovable property would have needed to be €2.9 billion in 2017 in order to reach the EU average as measured by proportion of economic output. An indicative 50-50 split in the yield between commercial rates and taxes on residential property (i.e. €1.45 billion from commercial rates and €1.45 billion from the LPT) would imply almost an additional €1 billion needed from taxes on

residential property, or a trebling of the current yield. The Interdepartmental group review (2019) of the LPT estimates the annual yield in Ireland rebased at November 2019 values and including some previously exempt properties, with no local increases or reductions, and applied at the central rate of 0.18 per cent, would yield €771 million. That implies the rate would need to almost double to bring the Irish yield in line with a €1.45 billion target.

However, caution is required when making comparisons in this way. For example, in Northern Ireland, the property tax pays for services such as water and bin collection, but this is not the case for all properties in the Republic of Ireland. Notwithstanding this caveat, there is a strong efficiency and equity case for increasing the yield as a proportion of output. In practice, this means increasing the rate and updating valuations. Political economy realities mean that rate increases would need to happen gradually over a multi-year period. An increase of 0.01 per cent per annum would imply an annual increase of €27.50 (€0.53 cent per week) for the median property rebased at November 2019 values.

The Interdepartmental group (2019) considered a number of scenarios for achieving a broad yield of €500 million per annum.[13] The group's Scenario 1 applies an indicative central rate to all properties. The Interdepartmental group estimates a rate of 0.114 per cent generates a €500 million yield. This would lead to a higher charge for some properties and a lower charge for other properties compared to the current LPT structure. This does however maintain horizontal equity as the charge reflects the value of the asset.

The group's Scenario 2 violates horizontal equity because it applies different rates to different local authority areas. This scenario arbitrarily chooses valuations based on yield targets set equal to current LPT yields. The effect is to reduce the rate for areas where property prices have disproportionately grown – a side effect that could potentially further increase property values in fast-growing areas. Scenario 2 is also the only one of the five scenarios that does not produce a broadly progressive impact on disposable household income. It is difficult to see any

[13] The group seems to have chosen €500 million because it is close to the existing yield.

economic or equity basis for pursuing Scenario 2 and there is little to recommend it.[14]

Scenario 3 and Scenario 4 increase the LPT rate for each valuation band, thereby adding an additional element of progressivity to the tax. However, this comes at the cost of an additional layer of complexity. Combining these structures with potentially 31 different local variations could lead to as much as 620 different tax rates.

Finally, Scenario 5 broadens the bands from €50,000 to €90,000. The intent under Scenario 5 is to ensure that the liability associated with each valuation band remains unchanged. Overall, Scenario 1 and Scenario 5 appear the most prudent structures, as they are most consistent with horizontal equity, have broadly progressive impacts and have a simple and easy to understand structure. The major issue with these Scenarios is the implied failure to increase the overall yield. A failure to increase the annual yield as a proportion of economic output would constitute a significant policy failure given the growth enhancing impact associated with greater reliance on property taxes.

Either Scenario 1 or Scenario 5 combined with a commitment to increase the rate by 0.01 per cent or 0.02 per cent annually over a ten-year period and a commitment to rebase valuations every three or four years would constitute a welcome reform.

4.2 Recurrent taxes on net wealth

Wealth is a function of past endowments (mainly inheritance), past income flows, past value changes, as well as past saving and consumption decisions. Ireland has not had a recurrent (e.g., annual) tax on net wealth since it abandoned the tax in 1978. There are advantages and disadvantages to reintroducing such a tax. The 2009 Report of the Commission on Taxation cited concerns about potential capital

[14] There is no compelling argument based on efficiency or equity grounds for local areas maintaining different rates. However, enabling local authorities to have some limited flexibility to modify the core rate up or down combined with retention of the entire local LPT yield within the local authority area could be conducive to strengthening local democracy to the extent it increases local agency over local outcomes. This is particularly relevant in a country like Ireland where only a tiny proportion of government revenue raising occurs at the local level.

flight in an environment where capital is highly mobile as well as concerns about high administration and compliance costs. Similarly, an Oireachtas Research Note (2013) argues that the potential costs (administrative burden and potential capital flight) outweigh the benefits of net wealth taxes such as greater equality and revenue raised.

On the other hand, Hills (2013) argues that greater taxation of wealth offers a number of advantages. Arguments in favour of a wealth tax range from the potential revenue yield, to social justice considerations, to potential economic benefits, and to administrative advantages such as assisting the fight against tax evasion. The taxation of wealth raises wider issues about the potentially harmful effects of wealth concentration e.g. through its effects on the balance of power and influence in a country and society. Ocamp et al. (2017) argue that net wealth taxes can have a 'use it or lose it' quality – it shifts the tax burden to unproductive wealth holders. This could boost the allocative efficiency of the capital stock.

Taxes on net wealth have become less common in Europe over the last two decades. In general, wealth taxes as enacted and modified have been notable for their poor design. A range of exemptions and reliefs has been common, as have high compliance costs. A good wealth tax may have some limited exemptions. However, the scale and range of the exemptions and reliefs that developed over time in different jurisdictions increasingly undermined the justification for wealth taxes on horizontal equity grounds; as well as increasing the administrative burden; encouraging the use of tax planning by the very wealthy to avail of tax shelters, and reducing the overall tax yield. In addition, exemptions and reliefs have tended to favour non-productive assets such as housing over other more productive asset types. This type of design distorts investment decisions away from more growth enhancing activities.

As Boadway et al. (2010) point out, the need for regular valuations imposes compliance and administration costs. Valuation issues are a key barrier to introducing a wealth tax. There are three main objectives when choosing the best valuation method: A) obtaining the most accurate values, B) minimising

administration and compliance costs, and C) minimising uncertainty and delay. Tension between these goals is inevitable and compromise and approximation in valuation are necessary. Valuation is particularly difficult where there is no active market for the asset type in question. Assets like goodwill and human capital may be impossible to value in practice. Valuing pension rights also represents particular difficulties.

Concerns about the costs of identifying, measuring and valuing net assets have motivated the abandonment of net wealth taxes in a number of countries (Lawton and Reed, 2013). In addition, Figari (2013) points out that the design of a wealth tax must address the issue of the increased mobility of the tax base and the ease of access of wealthy households to tax havens. Despite the history of abandonment, there is no administrative reason why we could not introduce a net wealth tax. Nevertheless, an easily understood and standardised valuation system that does not insist upon open market valuation and that taxpayers can administer on a self-assessment basis is crucial to ensure costs are manageable.

To reduce the administration, compliance and uncertainty costs of running the tax we can apply a number of general rules:

1. Self-assessment should be used wherever possible;
2. A single rate is preferable to a graduated rate;
3. A high threshold of liability should apply;
4. An exemption can be given for personal and household effects worth up to a certain value;
5. Uniform rules and formulae should be set for the valuation of particular asset classes. These rules should be as simple, easily understood, and transparent as possible;
6. Rules and formulae should err on the side of undervaluation in order to obtain political acceptance and in order to minimise legal challenges;
7. The value of the taxpayer's total net wealth could be treated as fixed for a number of years e.g. for three years, before being re-assessed;
8. Alternatively, the value of particular asset classes can be treated as fixed for a number of years e.g. business assets, land or real estate;

9. Statutory provisions can be adopted to automatically adjust the thresholds and allowances every number of years to account for inflation;
10. Trusts could be treated as automatically transparent or 'see-through' in the sense that the trustee is legally obligated to identify the beneficiary or beneficiaries to the tax authorities with the value of the fund then added on a proportional basis to the assessable gross wealth of the beneficiaries.

One downside to revaluing assets only periodically is that relative changes can be large and this will create inequities. On the other hand, frequent revaluations can be expensive and intrusive.

Setting a low threshold of liability for a wealth tax will increase the number of households that are liable. However, a low threshold of liability will also increase the administrative burden as well as political opposition to the tax. A high marginal rate will increase the yield but might undermine the rationale for accumulating savings and for investing.

McDonnell (2013) argues that a well-designed wealth tax has many merits, but if Ireland were to introduce an annual wealth tax it should avoid pursuing the type of wealth tax model that has tended to prevail internationally i.e. with multiple exemptions and reliefs, with a low threshold, and with a high marginal rate. McDonnell (2013) provides an in-depth discussion regarding the advantages and disadvantages of including exemptions and reliefs for different types of assets and recommends minimal exemptions and reliefs. While broadly in agreement the OECD (2018) make a case on economic grounds for providing relief for business assets. The structure that will best reconcile the tension between our main objectives will have:

a) Either zero or very few exemptions and reliefs,
b) A relatively high tax-free allowance or threshold, and
c) A flat marginal rate that is set at a low level.

In short, a net wealth tax should minimise the number and scale of exemptions and reliefs but compensate for this by setting a relatively high threshold of liability.

For practical reasons a net wealth tax should contain an exemption for human capital, as well as for the insured value of personal property up to a modest amount. There is also a reasonable case for partial or full exemption of pension rights, for 'goodwill'[15], and for heritage goods and collections. Finally, we should see the potential introduction of a net wealth tax as complementary to the reform of Capital Acquisitions Tax (CAT) and to reforms to ensure the equality of taxation for all forms of personal capital income.

Lawless and Lynch (2016) used micro-data from the CSO's Household Finance and Consumption Survey 2013 (CSO, 2015) to make estimates of wealth tax revenue for nine separate scenarios of wealth tax design. Six of their nine scenarios had major exemptions for particular asset types. Such a design approach is highly problematic, as it would distort investment decisions and create tax shelters. Of the remaining three scenarios described, one allows for no personal threshold. Such a scenario would impose compliance costs on the entire population of households along with creating significant administration costs. In addition, the equity goals underpinning the wealth tax imply the need to tax 'excessive wealth disparities' rather than 'all wealth'. This design approach, while yielding the most revenue for the exchequer, would not be desirable or feasible.

The remaining two scenarios provide for generous thresholds and a 1 per cent rate. Lawless and Lynch find that a scenario with a €1 million personal threshold (doubled if married) and an additional €250,000 per child would have generated €248 million in 2013 and affected just 1.5 per cent of households. An alternative scenario with a €500,000 personal threshold (doubled if married) and an additional €125,000 per child would have generated €622 million in 2013 and affected 6 per cent of households (see Table 4.2). One concern with these scenarios is that the doubling of the threshold in the case of marriage appears excessively generous.

[15] Goodwill is an accounting concept. It refers to the value of an asset owned that is intangible but has a potentially quantifiable value. Reputation is a good example of a goodwill asset.

Table 4.2 ESRI estimate of revenue in 2013 from alternative wealth tax scenarios with and without a 33 per cent income cap, 1 per cent rate, no exemptions or deductions, € millions

	Revenue without cap	Revenue with cap
€1 million threshold (double if married), €250,000 per child	248	182
€500,000 threshold (double if married), €125,000 per child	622	508
All net assets excluding household main residence	2,041	1,935
All net assets	3,781	3,593

Source: Lawless and Lynch (2016)
Note: The Lawless and Lynch paper used 2013 wealth distribution data from the CSO's Household Finance and Consumption Survey (HFCS).

Reducing the rate to a more feasible 0.5 per cent would half the estimated gross yields. Administrative costs, non-compliance and avoidance measures would all reduce the net yield further. Table 4.3 shows an effective tax rate calculation for a taxpayer with net €1.5 million of non-exempt assets after applying reliefs. The result is an effective rate of just 0.17 per cent.

Table 4.3 Illustrative liability, 0.5 per cent rate, €1 million threshold, no exemptions or reliefs

Gross assets		
	less liabilities	
	less exempt assets	
	less reliefs on taxable assets	
	Assessed wealth	€1,500,000
	Threshold	€1,000,000
Taxable wealth	(Assessed wealth – threshold)	€500,000
Tax liability	€500,000 @ 0.5 per cent	**€2,500**
Effective tax rate	(Tax liability as % of assessed wealth)	0.17%
Marginal tax rate		0.50%

We can choose to impose a maximum income cap (ceiling relief) in order to assuage affordability concerns that might arise for high wealth but low-income households. In reality, the taxpayer will almost invariably pay the wealth tax out of income so that it effectively acts as surtax on income tax – though this is characteristic of all taxes. Lawless and Lynch estimate that introducing a 33 per cent income cap at the 1 per cent rate would have reduced the yields to €182 million and €508 million respectively in 2013.

Net household wealth as measured by the Central Bank's Quarterly Financial Accounts (2018) increased by close to two thirds between 2013 and 2017. This

means that the two 'high threshold and no exemption' scenarios would have generated significantly more tax revenue in 2017 than in 2013, albeit with a much larger proportion of households affected. However, we cannot be precise about likely yields in 2017 due to the absence of more-up-to-date wealth distribution statistics.

Overall, there is a viable case for broadening the tax base to include an annual wealth tax – albeit only one that is carefully designed. Such a tax will recognise ability to pay, should seek to minimise economic distortions, and should be as simple as possible. If the core objectives are horizontal and vertical equity then we can see the wealth tax as a complement to income tax, which reflects the additional taxable capacity of the wealth holder. A wealth tax with minimal exemptions and reliefs can be a valuable tool for clamping down on tax evasion. If we can ensure the net wealth tax has a minimum of exemptions and reliefs, and has low marginal and effective rates, then we can ensure minimal distortions to economic activity.

4.3 Estate, inheritance and gift taxes

While the holding of net wealth is currently untaxed in Ireland, there are other taxes on wealth. Capital Acquisitions Tax (CAT) is a tax on wealth transfers and Capital Gains Tax (CGT) is a tax on the appreciation of an asset's value. Sandford (1987) argues that inheritances and other endowments explain a large proportion of wealth inequality. CAT includes inheritance tax, gift tax and Discretionary Trust tax. CAT was introduced in 1976 as a partial replacement for estate duty and is charged on the amount gifted to, or inherited by, the person (known as the donee) receiving the gift/inheritance.

Rates originally varied between 5 per cent and 50 per cent and CAT has been 33 per cent since December 2012. Net CAT receipts were €522 million in 2018 and €460 million in 2017 most of which came from inheritances (Revenue Commissioners, 2019).

CAT has a tax-free threshold known as a group threshold, which is determined based on the relationship between the person making the gift or leaving the inheritance (known as the disponer) and the donee. The tax-free thresholds often change to reflect inflation. The threshold is €320,000 for a child, €32,500 for a sibling, niece, nephew or lineal ancestor or descendent, and €16,500 for all other groups. Thus, a gift to a child of €350,000 would incur a CAT charge of €9,900 (an effective rate of 2.8 per cent) while the same gift to a non-relative would incur a CAT charge of €110,055 (an effective rate of 31.4 per cent). It is extremely difficult if not impossible to justify the different thresholds for different groups on equity grounds.

CAT also has a number of generous exemptions and reliefs. There is an exemption on the first €3,000 of taxable gifts received during each tax year, and very significantly, there is an exemption for gifts and inheritances made between spouses/civil partners. There are also highly generous agricultural and business property reliefs, which reduce liability to CAT by 90 per cent. The relief operates by reducing the market value of the relevant assets by 90 per cent, so that CAT is

calculated on an amount - known as the 'agricultural value' or 'business value' as appropriate - which is substantially less than the market value. There is no upper ceiling on these reliefs. In conjunction with the basic €320,000 threshold, it so happens that a person could inherit up to €3.2 million without attracting a CAT liability.

One defence of business and agricultural property reliefs is that they might prevent businesses splitting up (Boadway et al., 2010). However, evidence from Bloom (2006) suggests that the retention of medium-size businesses might actually harm the efficiency of the economy through inferior management practices. To deal with liquidity issues Boadway et al. (2010) offers the possibility of businesses and farms claiming instalment relief, which could enable tax payment over multiple years at a very low interest rate.

The exemptions for certain gifts and the range of various reliefs and loopholes currently enables the very wealthy to minimise their CAT liability. This suggests a need for substantial reform.[16] The generosity of the exemptions and reliefs clearly undermines the principle of horizontal equity between taxpayers and greatly depletes the potential yield. In particular, there should be a review of the exemption for spouses. If spouses are brought within the charge then a high threshold should be set to ensure forced sales of family homes does not become an issue. A threshold of between €1,000,000 and €1,500,000 might be an appropriate threshold for transfers between spouses. In addition, while recognising the rationale underlying agricultural and business reliefs, the 90 per cent reduction appears unjustifiably generous. Finally, the absence of a ceiling on these reliefs seems impossible to justify on equity grounds.

4.4 Other notable taxes on capital

Ireland partially[17] taxes capital appreciation through Capital Gains Tax (CGT). We

[16] There are also concern that the use of trusts combined with offshore companies could facilitate aggressive tax avoidance and tax evasion.
[17] Many asset classes are not covered and there are exemption e.g. for the principal private residence.

charge CGT on the value of the capital gain made on the disposal of an asset. CGT is 33 per cent in 2019. There are a number of CGT reliefs and an annual exemption of €1,270 for all assets disposed of by an individual. There are exemptions for disposals to spouses/civil partners and an exemption for disposal of the principal private residence. There are certain reliefs for disposal of business or farming assets. There is no indexation relief. Net receipts from CGT peaked at the height of the property boom in 2007 at €3.1 billion and were €996 million in 2018.

The OECD (2011) suggests that a prudent reform for its member states would be to align the tax rates that apply to income and capital gains more closely. They argue that differences in tax rates on different types of income (e.g. interest compared with capital gains) are at the heart of much income-shifting tax planning and more aggressive avoidance opportunities. The logical destination for this argument is to treat capital gains as income for tax purposes. The OECD (2011) also argues that trusts should not benefit from concessionary rates.

There are other taxes related to asset stocks and asset transfers. For example, we tax the deposit interest paid to the accounts of Irish residents as Deposit Interest Retention Tax (DIRT). It is a tax deducted at source. DIRT is therefore a tax on the income arising from a capital stock. The DIRT rate is 35 per cent in 2019 for payments made annually and 38 per cent where interest is not paid annually or more frequently.

Stamp duty[18] applies ad valorem on residential and non-residential property transactions. Rates vary from 1 per cent and 2 per cent on residential property to 6 per cent on non-residential property. Stamp duty also applies at a rate of 1 per cent to transfers in stocks and shares by way of sale. There is also a levy at the rate of 3 per cent on premiums received by insurance companies from certain classes of non-life insurance business and a range of other minor levies.

[18] Stamp duty is a tax mainly on legal and commercial instruments and in respect of certain transactions. It is payable on transfers of land and on other assets.

Net receipts from stamp duties were €3.6 billion in 2006[19] and €3.2 billion in 2007. However, this had fallen to €1 billion by 2009 and it was €1.5 billion in 2018. The decline reflects falling yields from charges on land and property and from charges on stocks and shares. Charges on land and property made up 82.3 per cent of net stamp duty receipts in 2006 but just 7.4 per cent in 2012, before rising to 45 per cent (€660 million) in 2018. Stamp duty on stocks and shares made up 28.7 per cent (€421 million) of net receipts in 2018. Most of the remainder came from non-life insurance levies and levies on certain financial institutions.

Stamp duty receipts tend to be volatile and are often sharply procyclical. Stamp duty also discourages capital transactions and acts as a barrier to economic efficiency. One revenue neutral but potentially growth enhancing option is to shift the composition of capital taxation away from stamp duty and towards another form of capital taxation, for example, a stronger local property tax, a net wealth tax, or a land tax.

5. CONCLUSION

This paper argues that Ireland has scope to increase taxes on capital stocks. Ireland collects less tax under this heading than the EU average measured as a proportion of economic output. In addition, these types of tax tend to be amongst the most growth friendly of taxes. The paper argues for indexation of the LPT to value, with local authority scope for discretion over the rate removed. Alongside this, the paper argues for an increase in the rate of at least 0.01 per cent annually over a ten-year period. There is a strong case in equity for introduction of a tax on net wealth but this should only happen if the tax has a high threshold of liability, a low rate and a minimum of exemptions and reliefs. Finally, policymakers should reform the inheritance and gift tax (CAT) such that there is greater horizontal equity between taxpayers. Given the growth friendly nature of this tax there is a strong case for targeting a much higher yield as a proportion of economic output.

[19] These figures include receipts from stamp duty charges on credit cards, charge cards, ATM cards and debit cards.

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