NERI Submission to the Select Committee on Budgetary Oversight

Examination of Taxation on Wealth and Assets: How they Work and Could be Evolved in Ireland

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Executive Summary

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

The Select Committee's specific request was to look at taxes on wealth and assets, how they work, and how they could be evolved in Ireland.

A household's wealth is a function of past endowments (primarily inheritances), past income flows, past value changes, as well as past saving and consumption decisions. The distribution of wealth in the population is much more concentrated than that of income and much of that wealth has been inherited unearned across generations. Wealth generates more wealth and therefore inequality tends to compound over time in the absence of progressive capital taxation including the taxation of acquired wealth. Modest taxes on wealth (net wealth taxes, estate taxes, inheritance and gift taxes, property and land taxes) are likely to have minimal impacts on economic growth and poverty, at least relative to the impact of taxes on labour, taxes on consumption, or taxes on capital income. This is an important consideration give the core finding of the Commission on Taxation and Welfare (COTW, 2022) that taxes will need to structurally increase in the years to come

Ireland's most important fiscal tool for redistributing wealth is Capital Acquisitions Tax (CAT). This is because inheritances and other endowments explain a significant proportion of intergenerational wealth inequality and CAT is the tax on inheritances and gifts. However, effective tax rates on income from inheritance and gifts are far lower than effective tax rates on labour income, and indeed far lower than effective tax rates on consumption. Indeed, such is the generosity of exemptions and reliefs on business and agricultural property, that, when combined with the highest tax-free threshold, it is possible to inherit over €3 million in unearned assets without attracting any CAT liability. For context, €3 million is more than four times the wealth threshold required to enter the top 10 per cent of households by net wealth.

The generous treatment of income from inheritances and gifts clearly undermines horizontal equity[1] between taxpayers (consider vis-a-vis effective tax rates for wage earners) and enables the tax-free transfer of substantial amounts of assets across generations. It is also unclear whether there is any economy-wide return on these reliefs particularly when the opportunity cost of revenues foregone is considered. The NERI therefore strongly agrees with the COTW recommendation that policymakers should scale back the generosity of all CAT reliefs and thresholds and increase the tax yield from inheritances and gifts. In particular, there should be a ceiling on the lifetime value of CAT reliefs available to an individual, there should be a modest charge applied to gifts and inheritances generally, and death should be treated as a disposal for Capital Gains Tax (CGT) purposes.

It is also worth considering the advantages and disadvantages of introducing a tax on net wealth. Net wealth taxes are very attractive in distributional terms. While the Irish tax system does a good job of recognising and ameliorating income inequality via the progressive income tax system, it only very modestly addresses wealth inequality. A tax on net wealth that would impact upon just a tiny minority of extremely wealthy taxpayers without any risks to poverty and deprivation has to be considered given the range of future pressures on public spending and fiscal sustainability (e.g. ageing demographics and the cost of the net zero transition) and the need for taxes to be broadened or increased or both over the medium-term.

Taxing wealth and the wealthy can also be an important element of social solidarity or the idea that 'we are all in it together'. Wealth generates benefits to the holder beyond that of the income gleaned, for example, power, security and comfort. If the core objectives of a wealth tax besides the revenue yielded are horizontal and vertical equity,[2] then we can see the wealth tax as a complement to income tax, which reflects the additional utility and taxable capacity of the wealth holder. A wealth tax with minimal exemptions could also be a valuable tool for clamping down on tax evasion. If we can ensure the net wealth tax has a minimum of

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[1] 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.

[2] Vertical equity is synonymous with the principle of progressive taxation – i.e. that those with greater taxable capacity should bear a proportionally heavier tax contribution.

exemptions and reliefs, and has low marginal and effective rates, then we can minimise distortions to economic activity.

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. Overall, there is a strong case for broadening the tax base to include an annual wealth tax – albeit only one that is carefully designed. Such a tax will be on a self-assessment basis, will recognise ability to pay, will seek to minimise economic distortions by having no reliefs but a high threshold and a flat marginal rate set at a low level, and it should be as simple as possible.

The introduction of the Local Property Tax (LPT) was a welcome policy development. Taxes on land and property are the most efficient form of taxation from a long-run growth perspective. Indeed, given the very strong theoretical arguments in favour of recurrent taxes on immovable property, the NERI strongly agrees with the COTW that there is an excellent case for significantly increasing the basic LPT rate and yield. This could be done gradually over a 10-year period alongside a rebase of property values to market levels every four years. We would caution against increasing the complexity of the tax by applying different rates in different local authorities while hardship issues are best resolved through a deferment system for low-income households.

A Site Valuation Tax (SVT) for Ireland on all land not covered by the LPT was also proposed by the COTW report. An SVT would disproportionately target high net wealth households and would be economically efficient and transparent. The NERI strongly endorses the introduction of an SVT on equity grounds and on efficiency grounds. Our view is that over the medium-term the LPT and SVT should form increasingly larger percentages of the overall revenue yield (taxes and social contributions) of the State. These types of tax tend to be amongst the least distortionary and most pro-growth of all forms of tax and given the unequal distribution of wealth (much more unequal than income) they are also broadly if not perfectly progressive.

Finally, the NERI agrees with the finding of the COTW that government revenues will need to increase over the medium-term as a percentage of national income. In this context, the NERI's view is that the tax system should be compositionally reoriented towards taxes on property and wealth relative to other tax types. Doing so would be more economically efficient than increasing taxes on labour income or capital income and would not generate the adverse inequality, poverty and deprivation outcomes from higher taxes on consumption.

1. Introduction

This submission briefly looks at taxes on wealth and assets in Ireland, how they work, and how they could be evolved. Section 2 compares tax yields in Ireland and the EU. Section 3 describes the state of household wealth and wealth distribution in Ireland. Section 4 then discusses the taxation of wealth and property across a selection of major tax types and proposes a set of reforms.

2. Comparing Tax Yields

The potential tax base is comprised of everything that 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 including its composition, as well as the aggregate size of the tax take relative to that of the overall economy. In general, 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.[3] Alternatively, we can categorise tax receipts as coming from income, profits, expenditure, acquisitions, licences, property or wealth.

Table 2.1 shows aggregate revenue comparisons from Eurostat for capital taxation in Ireland and the EU. Capital revenue in Ireland was 11.2 per cent of GNI* (€26.26 billion) in 2021, whereas capital revenue was 8.5 per cent of GDP in the EU. Once we exclude taxes on the income of corporations, capital revenue in 2021 falls to 4.6 per cent of GNI* in Ireland, compared to 5.5 per cent of GDP in the EU.[4] This amounts to an Irish 'under-taxation of capital' gap of €2.1 billion.

Drilling down we find that taxes on the capital income of households are higher in Ireland as a percentage of national income, whereas taxes on the capital income of the self-employed in Ireland are lower than the EU average. Indeed, taxes on the income of the self-employed are just 58 per cent of the EU average on a percentage of national income basis. Finally, taxes on

[3] 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.

[4] This emphasises the point that gross capital revenue in Ireland is 'distorted' by the unusual scale of corporation tax receipts. The Department of Finance in its most recent Stability Programme Update describes the current level of corporation tax receipts as potentially unsustainable and partially windfall in nature.

the stock of capital (i.e. wealth) comprised 5.6 per cent of total taxation in Ireland (€5.03 billion) and 6 per cent of total taxation in the EU. The 0.3 per cent of GNI* under-taxation of stocks of capital in Ireland (Table 2.1) equates to €0.7 billion.

Table 2.1 Capital Taxation, Ireland (GNI*) and EU 27, (% GDP)

	2011	2016	2021
Total capital revenue			
Ireland	7.8	8.8	11.23
EU	7.4	8.1	8.5
By function			
Income of corporations			
Ireland	3.0	4.4	6.62
EU	2.5	2.7	3.00
Income of households			
Ireland	0.9	0.8	1.26
EU	0.7	0.9	1.02
Income of self-employed			
Ireland	1.3	1.4	1.20
EU	2.0	2.0	2.07
Stock of capital			
Ireland	2.4	2.0	2.15
EU	2.2	2.5	2.45
Property taxes			
Recurrent taxes on immovable property			
Ireland	1.1	1.1	0.7
EU	1.1	1.3	1.1
Other taxes on property			
Ireland	1.1	0.8	1.2
EU	0.8	1.0	1.1

Sources: Eurostat (2023): Taxation Trends in Europe, CSO (2023): National Accunts, NERI calculations

Note: Rounding affects totals.

Taxes on property comprise the bulk of the taxes on capital stocks. Taxes on property amounted to 5.1 per cent of total taxation in Ireland (€4.55 billion) compared to 5.5 per cent of taxation in the EU. Ireland's under-taxation gap for recurrent taxes on immovable property (0.7 per cent of Irish GNI* compared to 1.1 per cent of EU GDP) is around €900 million. Ireland collected €1.66 billion from such taxes in 2021. Commercial rates accounted for €1.1 billion while the Local Property Tax (LPT) which is a recurrent (annual) tax on immovable property was the next largest tax in the category at close to €500 million.

Other major capital taxes of note include stamp duty on capital transactions which is a tax on the purchase of capital assets (€1.4 billion), Capital Gains Tax or CGT (€1.5 billion), and Capital Acquisitions Tax or CAT (€580 million) which comes largely from inheritances but also includes gifts.[5]

3. Wealth and Wealth Distribution

The most recent Central Bank Quarterly Financial Accounts (2023) which covers Q4 2022 and doesn't include personal property notes that the net wealth of Irish households was at an all-time high of €1,069 billion (i.e. €1.07 trillion). Housing assets represented 67 per cent of total household net worth. Wealth in Ireland is much more concentrated than income. The 2020 Household Finance and Consumption Survey (HFCS) estimates Ireland's net wealth Gini at 0.65 and gross household income Gini at 0.43. A higher Gini score represents a more unequal distribution. This means that taxing wealth and capital is generally more distributive than taxing labour income.

Lydon et al (2021)[6] draw on HFCS data to estimate the top 10 per cent of households held 50.4 per cent of net wealth in 2018. In other words, the wealthiest 10 per cent of households held more net wealth than the remaining 90 per cent of households combined.

Table 3.1 Net Wealth Decile Threshold Limits, 2020

1st	2nd	3rd	4th	5th
<600	<10,900	<58,900	<127,800	<193,100
6th	7th	8th	9th	10th
<262,700	<359,600	<502,300	<788,400	>788,400

Sources: CSO (2022) Household Finance and Consumption Survey

The 2020 HFCS breakdown for wealth thresholds is shown in Table 3.1. Median gross and net household wealth values were circa €265,000 and €193,000.[7] Ten per cent of households had net wealth of €788,400 or higher while the bottom 30 per cent of households had net wealth of €58,900 or less. Households at the top of the 90th percentile control **72 times** the wealth those

[5] The Revenue Commissioner's Annual Report for 2022 shows net tax receipts of €22.6 billion for corporation tax, €1.7 billion for CGT, €1.8 billion for Stamp Duty; €605 billion for CAT and €500 billion for LPT.
[6] Lydon R et al. (2021) *Changes in Irish Household's Finances from 2013 to 2018*.
[7] For context, the Group a threshold for Capital Acquisitions Tax is €335,000. In other words, the average inheritance is not subject to a tax liability. Inheriting €335,000 would instantly put someone with zero net wealth into the top one third of wealth holders despite paying no tax on the gain.

at the top of the 10th percentile. Owner-occupiers control 97.2 per cent of net wealth, whereas renters control just 2.8 per cent. Median net wealth is just €4,000 for lone parents, €23,000 for those under 35, and €5,300 for renters.

The Household Main residence (HMR) is the most important asset class for all deciles but ranges in importance from 30 per cent for the top decile (the wealthiest ten per cent) to 80 per cent for the 5th decile. Compared to the other deciles, the top decile has much larger percentages of their wealth in 'other real estate' (non-HMR or land i.e. primarily commercial real estate) at 18 per cent, in 'self-employment business at 13% and in 'land' at 17%. The contributions to the wealth stock are as follows:

- Household main residence (52.4%); 69.6% of households hold this asset. Note that property prices increased 24.5% between June 2020 and February 2023.
- Other real estate property (11.3%); 12.5% of households hold this asset.
- Land (10.0%); 8.9% of households hold this asset.
- Self-employment business wealth (6.7%); 15.2% of households hold his asset.
- Vehicles and other valuables (4.2%)
- Financial asset (15.4%) which breaks down into Savings (6.3%), Bonds or mutual funds (1.9%), Shares (1.3%), voluntary pension (4.5%), other financial (1.4%)

Note that financial assets are likely to be underreported as they are easier to hide. Financial assets are also disproportionately held by the wealthiest which means that the wealth share attributed to the very wealthiest in the HFCS is likely to be an underestimate.

4. Selected Taxes

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. We can identify 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)
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. The intent of Ireland's 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 €1.3 million in 2020 from less than 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, pandemic or other crisis.

The rest of this section will variously 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 and vertical equity 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 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. Inheritances and other endowments help explain the persistence of wealth inequality across generations. 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 it has been 33 per cent since December 2012. Net CAT receipts were €605 million in 2021, most of which came from inheritances.

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 €335,000 for a child, €32,500 for a sibling, niece, nephew or lineal ancestor or descendent, and €16,250 for all other groups. Thus, a gift to a child of €365,000 would incur a CAT charge of €9,900[8] (an effective rate of 2.7 per cent) while the same gift to a non-relative would incur a CAT charge of €115,088 (an effective rate of 31.5 per cent). The varying thresholds for different groups are extremely difficult, if not impossible, to justify on equity grounds. There is also no justification on efficiency grounds. The difference in CAT thresholds should be reduced over time.

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 (so €6,000 per annum if each parent provides a gift), 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.

[8] (365,000 – 335,000) (.33) = 9,900

In conjunction with the basic €335,000 threshold we have the result that up to €3.35 million can be inherited in this way without attracting a CAT liability. That is by itself over four times the amount of wealth needed to place an individual in the top decile of wealthy households and approximately eighty times the value of median annual wages, and it can be accomplished without any contribution or effort required from the beneficiary.

One defence of business and agricultural property reliefs is that they might prevent businesses splitting up. However, the retention of medium-size businesses in family ownership might actually harm the efficiency of the economy in the long-run through inferior management practices. While recognising the rationale underlying agricultural and business reliefs, the 90 per cent reduction is manifestly and unjustifiably generous. In addition, the absence of a ceiling on these reliefs is impossible to justify. A smaller per cent relief would be more appropriate. Finally, the absence of a ceiling on these reliefs is impossible to justify. One option is to offer the possibility of businesses and farms claiming instalment relief, which could enable tax payment over multiple years at a very low interest rate.

In effect, the exemptions for certain gifts and the range of various reliefs and loopholes available enables the very wealthy to minimise their CAT liability. This suggests a need for substantial reform.[9] The generosity of these exemptions and reliefs clearly undermine the principle of horizontal equity between taxpayers and it also depletes the potential tax yield. In addition, there should be a review of the complete exemption for spouses. If spouses are brought within the charge then a high threshold would be necessary to ensure forced sales of family homes does not become an issue. For example, a threshold of between €1,000,000 and €1,500,000 might be an appropriate threshold for transfers between spouses.

4.2 Recurrent taxes on net wealth[10]

Ireland has not had a recurrent tax on net wealth since it abandoned the tax in 1978. There are advantages and disadvantages to reintroducing such a tax. The 2022 COTW took the view that a

[9] There are also concern that the use of trusts combined with offshore companies could facilitate aggressive tax avoidance and tax evasion.

[10] This section draws on McDonnell T. (2013) *Wealth Tax: Options for its Implementation in the Republic of Ireland.*

new tax on wealth should not be introduced without first attempting to substantially fix Ireland's other taxes on capital and wealth (e.g. CAT, CGT). The inference is that if these other taxes are not successfully reformed so as to generate more revenue and reduce inequality then a net wealth tax could be introduced. Potential introduction of a net wealth tax should be seen as complementary to the reform of CAT and to reforms to ensure the equality of taxation for all forms of personal capital income.

Arguments in favour of a wealth tax range from the potential revenue yield, to social justice considerations and social solidarity, 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. Finally, net wealth taxes can have a beneficial 'use it or lose it' quality – it effectively shifts the relative tax burden to more unproductive wealth holders. This could boost the allocative efficiency of the capital stock by encouraging sale of underused or badly used assets.

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. Finally, if we can ensure a minimum of exemptions and reliefs, with low marginal and effective rates, then we can ensure minimal distortions to economic activity.

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 and high compliance costs have been common. 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.

4.2.1 Administrative costs

Concerns about the costs of identifying, measuring and valuing net assets have motivated the abandonment of net wealth taxes in a number of countries. The need for regular valuations imposes compliance and administration costs. Indeed, valuation issues and administrative costs were identified by the COTW as a key barrier to introducing a wealth tax.

There are three main objectives when choosing the best valuation method: A) obtaining the best possible 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 carries particular difficulties.

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. 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 instead of overvaluation 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.

Despite the history of abandonment, there is no administrative reason in principle why a modern and digitally joined up state 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.

4.2.2 Design considerations

Setting a low threshold of liability for a wealth tax will increase the number of households 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) and OECD (2018)[11] have discussed the principles of wealth tax design in depth. 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.

In addition, the design of a wealth tax must also consider the issue of the increased mobility of the tax base and the ease of access of wealthy households to tax havens. Again, a low rate and high threshold will reduce the incentive for high net worth individuals to aggressively avoid the tax or to move assets offshore.

Overall, with regard to a wealth tax, the structure that will best reconcile the tension between our main objectives will have:

a) Either zero or very few exemptions and reliefs,

[11] OECD (2018) *The Role and Design of Wealth Taxes in the OECD*.

b) A high tax-free allowance or threshold, and

c) A flat marginal rate that is set at a low level (i.e. sub 1 per cent).

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 for non-transferable pension rights, for 'goodwill'[12], and for heritage goods and collections. However, in general it is appropriate that a net wealth tax minimise the number and scale of exemptions and reliefs but compensate for this by setting a relatively high threshold of liability. 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.

4.2.3 Potential yield

Lawless and Lynch (2016)[13] used micro-data from the CSO's Household Finance and Consumption Survey 2013 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 applied to just 1.5

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[12] 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.

[13] Lawless, M and Lynch, D. (2016) *Scenarios and Distributional Implications of a Household Wealth Tax in Ireland*.

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 applied to 6 per cent of households (see Table 4.1). A notable concern with these scenarios is that the doubling of the threshold in the case of marriage appears excessively generous. 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. 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 a surtax on income tax. 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.

Table 4.1 Revenue estimate from wealth tax scenarios, 2013, with and without a 33% income cap, 1% rate, no exemptions or deductions, € millions

	Revenue (no cap)	Revenue (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)

Net household wealth as measured by the Central Bank's Quarterly Financial Accounts (2023) increased by close to two hundred and fifty per cent between 2013 and 2022. This means that the two 'high threshold and no exemption' scenarios in Table 4.1 would have generated significantly more tax revenue in 2023 than in 2013, albeit with a much larger proportion of households affected. Notably, the yield will have increased by more than 250 per cent of the Lawless and Lynch estimates as a greater proportion of net wealth will have exceeded the threshold for taxation. Thus, a threshold of €1 million at 1 per cent (with increased thresholds for spouse and children) would very likely yield in excess of two thirds of a billion euro in tax revenue each year based on current levels of household wealth.

Table 4.2 shows an effective tax rate calculation for a hypothetical taxpayer with €1.5 million net of non-exempt assets after applying reliefs. The result is an effective rate of just 0.17 per cent.

Table 4.2 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%

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.

4.3 Recurrent taxes on immovable property including land

Residential property is the biggest component of wealth. The NERI's view is that the introduction 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 to economic growth. Evidence from the OECD (2010)[14] indicates that the tax structure influences growth performance. In particular, the OECD looked

[14] OECD (2010) *Tax Policy Reform and Economic Growth*.

at 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. These types of tax are also very difficult for the super-wealthy to avoid because the underlying asset lacks mobility and is impossible to hide[15]. The COTW recommends the introduction of a Site Valuation Tax (SVT) in Ireland. The same broad economic and distributional advantages of an LPT apply to an SVT as well.

Economic theory suggests that recurrent taxes on immovable property (sometimes known as RP taxes) are more growth-friendly than other taxes which in turn suggests that a greater reliance on these types of taxes will be growth enhancing. As shown in Table 2.1, Ireland under taxes immovable property relative to other EU countries. Ostensibly, there is therefore 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. The NERI's view is that the tax gap should be closed as soon as possible and that yields as a per cent of national income should ultimately settle well above the EU average. In practice, this means increasing the LPT rate and introducing an SVT.

Theoretical arguments in favour of recurrent taxes on immovable property (the LPT and potentially an SVT in the Irish case) can be summarised as follows:

a. Such taxes have been shown empirically to have a minimal negative impact on GDP; in other words, they are growth-friendly taxes;
b. They are very difficult to avoid or evade;
c. Unlike transaction-based property taxes such as Stamp Duty, these taxes are reasonably stable throughout the economic cycle and therefore provide a reliable tax base; this is particularly the case if property valuations only happen every few years;
d. They 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 (labour and capital) are increasingly mobile;

[15] The imputed rent from owner occupation is generally not subject to tax in OECD countries. The associated distortion of consumption and investment decisions is likely to harm not only welfare (as the beneficiaries are wealth holders) but also growth prospects.

f. They do not create a barrier to labour mobility (unlike transaction-based property taxes);
g. They can encourage investors to redirect capital to more productive sectors of the economy;
h. They can be progressive if correctly designed and;
i. They 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 and to land.

As property taxes are taxes on the ownership of property, they will disproportionately fall on wealthier households. Nonetheless, the strongest argument against an LPT or indeed an SVT is the potential to cause economic hardship. This is of course a concern common to almost all forms of taxation and does not invalidate the many arguments in favour of property and land taxes. The hardship argument is best resolved through a deferment system for low-income households. Such a system is already in place in Ireland for the LPT 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 from over the long-term. A similar design could and should be used for an SVT.

In relation to the LPT there is also an 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. 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 LPT and any potential SVT should be a fixed proportion of value. In other words, two taxpayers with properties worth €300,000 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.

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 or site value tax 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 rate is limited.

The principle of vertical equity could justify a progressive structure involving higher tax rates on more valuable properties or land. 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 tax yield to price fluctuations.

4.4 Other notable taxes on capital

Ireland partially[16] taxes capital appreciation through Capital Gains Tax (CGT). We charge CGT on the value of the capital gain made on the disposal of an asset. CGT is 33 per cent. 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 €1.7 billion in 2022.

A logical reform to minimise economic distortions and adhere to horizontal equity would be to align the tax rates that apply to income and capital gains more closely. 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 promote aggressive avoidance opportunities. The logical destination for this argument is to treat capital gains as income for tax purposes. Similarly, trusts should not benefit from concessionary rates.

[16] Many asset classes are not covered and there are significant exemptions e.g. for the principal private residence.

The NERI supports the view of the COTW that the transfer of assets on a death should be treated as a disposal for CGT purposes. This reform would help prevent tax avoidance opportunities related to its interaction with CAT and would remove the incentive to hold on to an asset until death.

In addition, we agree with Kakoulidou and Roantree (2021)[17] that CGT Retirement Relief and Entrepreneur Relief are prime examples of badly targeted tax expenditures with weak economic bases. These taxes are likely to distort behaviour in order to minimise tax and to have limited or no benefits in terms of entrepreneurship and investment. The NERI's view is that these reliefs should be ended. Finally, we note that CGT relief on principal private residence has no economic justification, and indeed distorts investment decisions, while also being highly regressive. This relief should be reformed over time, for example by introducing a lifetime cap on how much an individual can benefit from the relief.

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 33 per cent for payments made annually. We agree with the COTW that DIRT should be taxed at an individual's marginal rate of Income Tax and Universal Social Charge.

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 and a range of rates on other transactions. Net receipts from stamp duties peaked at €3.6 billion in 2006[19], fell to €1 billion in 2009, and were back to €1.8 billion as of 2021. The decline reflects falling yields from charges on land and property and from charges on stocks and shares. Stamp duty receipts tend to be

[17] Kakoulidou T. and Roantree B. (2021) *Options for Raising Tax Revenue in Ireland.*
[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.
[19] These figures include receipts from stamp duty charges on credit cards, charge cards, ATM cards and debit cards.

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, local property tax, a net wealth tax, inheritance tax, or a land tax.