Press Release

Irish Taxation Institute Pre-Budget 2011 Submission Focuses on New Ideas for Taking People off the Live Register

- **Pre-Budget submission also says marginal tax rates need to be frozen at their current level as Ireland moves towards 8th highest rates in the EU**

- **Submission also proposes measures to encourage Irish Pension Funds to invest in Irish corporates**

Issued 14 October, 2010. In its pre-budget submission to the Department of Finance, the Irish Taxation Institute has proposed three new measures to support job creation and business:

- Employers could claim 50% of social welfare payment for taking unemployed off the register. The employer could claim 50% of that employee's basic social welfare payment to defray the cost of salary for a period of 12 months.
- Introduction of a new tax relief for individuals making loan capital investments to encourage lending from the private sector to SMEs
- Encourage Irish Pension Funds to invest in Irish corporates, offering an alternative funding mechanism for medium to large Irish businesses

On mobilising the pension funds to invest in Irish business, Andrew Cullen, President of the Irish Taxation Institute, said "Investment by Irish pension funds in our own indigenous businesses is currently minimal and this proposal aims to increase investment levels, offering an alternative funding mechanism for Irish corporates. We are proposing that Irish pension funds would be enabled, and possibly even required, to invest a minimum of their asset allocation in established medium and large Irish corporates.

On the key issue of income tax and the proposed new Universal Social Contribution, the Institute believes there should be no marginal rate increases and says it is concerned that the marginal rate of income tax has now reached the "tipping point" beyond which there is no economic benefit to Government in raising the top rates any higher. Andrew Cullen, President of the Irish Taxation Institute said the introduction of the income levy from 1 January, 2009 and the subsequent increase in income tax rates has seen the marginal rate of income tax (including income levy) rise to 47% which is the 8th highest rate in the EU. "When this is combined with PRSI and the Health Levy, the aggregate marginal rate rises to a potential 55%. The Institute believes that combined marginal tax rates cannot be raised further". Mr. Cullen also said that the definition of the new single tax base under the Universal Social Contribution will be critical as the differing bases that exist at present for PRSI, the Health Levy and the Income Levy have caused considerable difficulty and complexity.

Details of the measures proposed:

Employers could claim 50% of social welfare payment for taking unemployed off the register

The Irish Taxation Institute proposes that the Government introduce assistance for employers to encourage the recruitment of staff from the Live Register. If the employer recruits a person who has been on the Live Register for at least six months, then the employer can claim 50% of that employee's basic social welfare payment to defray the cost of salary for a period of 12 months. The job must be a new full time position. The OECD has warned of a potential long-term unemployment problem in Ireland with rates of chronic joblessness possibly persisting well into the recovery. It advises that job-search incentives need to be strengthened in order to avoid growing benefit dependency. The OECD recommends tax incentives and other subsidies for hiring, together with increased investment in training, particularly for low-skilled workers.

New initiative to encourage lending from private sector into SME

The Institute also proposed that a tax relief for individuals making loan capital investments would encourage lending from the private sector in Ireland into SME businesses. Mr. Cullen said he believed that loan investment can meet the need for capital in small and medium Irish businesses. The Institute's submission said the relief could be targeted at active trading companies where potential for job creation is demonstrated.

How Irish pension funds could support Irish corporates

The Institute has pointed out that investment by Irish pension funds in our own indigenous businesses is currently minimal and this proposal aims to increase investment levels, offering an alternative funding mechanism for these corporates.

Under the Irish Taxation Institute's proposal, the pension fund would be required to invest 5% of its resources in either unquoted Irish shares or secure corporate bonds. Allocating 5% of pension fund assets in this way (say 1% p.a. for 5 years) would result in a total investment of €3.6.bn in shares or secure corporate debts.

Income Tax Measures

Broadening the income tax base

"Notwithstanding our high marginal rates, the tax yield from income tax and levies is low in Ireland when compared with most other OECD countries." said Andrew Cullen. "This is particularly marked at the lower end of the income scale, especially when family allowances and supplements are taken into account. Almost 50% (and rising) of income earners now pay no income tax at all and only 4% of earners pay over half of the income tax yield."

"The Institute has always supported the principle of a progressive income tax system, so that those who earn more pay more. However, it is not sustainable for half of our income earners to pay no income tax at all", he added.

Universal Social Contribution

The Institute said the introduction of a new Universal Social Contribution must not result in any further increase to the aggregate marginal rate of tax on income. Mr. Cullen also said that the definition of the new single tax base will be critical as the differing bases that exist at present for PRSI, the Health Levy and the Income Levy have caused considerable difficulty and complexity.

"Clarity is needed as to whether the new USC is an income tax or a social security contribution. This is particularly important in addressing international aspects of the USC, including double taxation agreements and social security bi-lateral/totalisation agreements."

He said the USC must be simple to administer and that a sufficient lead in time must be provided to minimise administrative difficulties and to enable taxpayers put necessary systems in place.

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