



Taxation ACC 30010: Fantasy Budget 2009
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Introduction

Our budget proposals coincide with perhaps the most turbulent economic climate in recent memory. Over the last couple of years we have witnessed the final death throes of the Celtic Tiger. Tax yields are low, and public confidence lower. There is a burgeoning belief that the taxpayer works to sow the seeds only for Government to squander the harvest. Those to whom the citizen conferred prestige, privilege and power failed in unison to protect the interests of our nation and a climate of confusion, frustration and suspicion pervades our society as we wait in anticipation for “the mother of all budgets” which looms menacingly on the horizon.

Our policies aim to restore confidence amongst taxpayers, and dispel any doubts that our tax system may not have the citizens’ best interest at heart.

We have prepared our policies in line with Adam Smith’s Canons of Taxation:

- i **Equity**
- ii **Certainty**
- iii **Efficiency**
- iv **Convenience**

Building Energy Tax Rate

...Property tax? We have a BETR solution

Aim:

To improve the energy efficiency of all properties in the state.

Proposal:

The Building Energy Tax Rate (BETR) is a proposed tax on the inefficient consumption of energy by Irish properties. It's designed to target the property owner tax base with a recurring annual tax, but using more objective, equitable and productive criteria. Up until recently such a tax would have been impossible to implement due to the lack of an appropriate framework for measuring the energy efficiency of properties, however, since 2006¹ an EU Directive has been transposed into Irish law which requires that all properties for sale or rent must be energy assessed and graded. The logic being that once potential buyers have an idea of the total cost of ownership and not just the purchase price, market forces will gradually shift demand towards properties that incur lower energy costs. While the spirit of this law is admirable, the dramatic drop in property transactions has effectively made it redundant. And without anything other than conscience compelling citizens to improve their energy efficiency we run the risk of renegeing on our commitments under the Kyoto protocol. We believe taxation is the solution to this problem.

- By taking advantage of the synchronicity with the legal framework and linking the energy grading of a property with a specific tax liability we can create a schedular system that incentivises efficient energy consumption.
- By rolling out mandatory energy assessment to all properties in the state for tax purposes, we have the potential to create long term sustainable employment. Carefully regulating the supply of certified energy assessors to meet demand will offer secure jobs to a substantial number of people with appropriate skillsets who are currently claiming unemployment benefits.

¹ Directive 2002/91/EC On the energy performance of buildings: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32002L0091:EN:HTML>

- Property owners can improve their energy grading by taking steps to enhance energy efficiency then opting for reassessment. This will stimulate transactions within the economy as people become motivated to purchase 'green' goods and services to upgrade their property.

Below is an example of the BETR schedule, which is adapted from the 'Building Energy Rating'² chart. There is considerable scope for variation in the rates and classifications of buildings, but we feel it clearly communicates the taxpayer's current liability and, by obtaining an A grade, the potential to become exempt from the tax.

BETR Schedule

Building Energy Rating kWh/m ² /yr	Residential	Commercial	Industrial
MOST EFFICIENT			
<25 A1	EXEMPT	EXEMPT	EXEMPT
>25 A2			
>50 A3			
>75 B1	€ 150	€ 300	€ 600
>100 B2			
>125 B3			
>150 C1	€ 200	€ 400	€ 800
>175 C2			
>200 C3			
>225 D1	€ 250	€ 500	€ 1,000
>260 D2			
>300 E1	€ 300	€ 600	€ 1,200
>340 E2			
>380 F	€ 400	€ 800	€ 1,600
>450 G	€ 500	€ 1,000	€ 2,000

² Building energy rating chart: <http://www.energyrating.ie/chart.html>

Emissions Trading Scheme

...Pollution Policy Paradox?

Aim:

To encourage the reduction of green house gasses

Proposal:

Since 1990's the Irish economy has experienced an exceptional growth. This has lead to an increase of CO2 emissions; however Ireland has aligned itself with the Kyoto Protocol. Since then satisfactory results have been achieved thus reducing down "to 70 million tones of CO2 p.a. , some eight million tones above the Kyoto target"³ "Ireland is closer to the Kyoto emissions target due to economic slump"⁴ According to CSO statistics the trend shows that from 2000-2007 methane gas has significantly decreased. "The decrease reflects lower methane emissions from cattle and sheep as their populations continue to decline and lower nitrous oxide emissions from reduced fertilizer use"⁵ "The proportion from Agriculture, where methane and nitrous oxide are the relevant greenhouse gases, has fallen from 35.9 % in 1990 to 26.8 % in 2007"⁶. In 1995 methane emissions were 523.1 million tones and in 2007 were 517.0⁷

We propose that the implementation of a new Trading Emission Scheme should be considered. This gap can be used by the Irish government to claim credits as "Emissions from Agriculture decreased by 3.8 percent from 19.296 Mt CO2eq in 2006 to 18.557 Mt CO2eq in 2007"⁸. The Irish government can enter into a mutual agreement i.e. with England and sell the unused credits of methane gas. The revenue received will be subject to negotiations between parties.

³ <http://www.irishtimes.com/>

⁴ <http://www.irishtimes.com/newspaper/ireland/2009/0313/1224242799199.html>

⁵ http://www.epa.ie/downloads/pubs/air/airemissions/GHG_UN_2007_Final_150409.pdf

⁶ http://www.epa.ie/downloads/pubs/air/airemissions/GHG_UN_2007_Final_150409.pdf

⁷ <http://www.cso.ie/newsevents/documents/enviracc.pdf>

⁸ http://www.epa.ie/downloads/pubs/air/airemissions/GHG_UN_2007_Final_150409.pdf

We believe that this will be beneficial to Ireland especially in the long-term. This will be advantageous to the government as countries like England or France rely on agriculture industry. The latest research shows that there is a huge demand for unused credits. “The London financial marketplace has established itself as the center of the carbon finance market, and is expected to have grown into a market valued at \$60 billion in 2007. The voluntary offset market, by comparison, is projected to grow to about \$4bn by 2010”⁹

Methane emission per Industry: (CH4) in (000 tones)	2000	2007
Agriculture & Fishing	562.6	524.4
Electricity & Gas	2.5	1.8
Domestic Transport	2.6	1.3
Construction Industry	1.4	1.4
Residential	2.7	2.2
Overall CH4	644.6	617.3

Above table from CSO.

⁹ <http://www.epa.ie/whatwedo/ETU/>

Lotto Rollover Levy

...Everyone's a winner, guaranteed!

Aim:

To distribute additional funding to vital public services.

Proposal:

We propose the introduction of a 10% levy on the rollover fund of the weekly National Lottery prizewinners. This is an extremely sensitive area as the National Lottery exists to "raise funds for good causes on behalf of the government"¹⁰. However, we believe that the levy is an additional method of raising much needed revenue for the Government without violating any canons of taxation.

Currently, there are no taxes on any cash prize winnings from the National Lottery, however, there is an international precedent for introducing such a tax. In the US, lottery prizes are subject to a 38% tax¹¹. This is quite a substantial proportion, but considering the sums of the prizes paid out the eventual winner is still quite well off! For the introduction of the tax in Ireland, we will pay special attention to the concepts of equity. As our tax is on the rollover fund *only*, the actual jackpot prize will remain tax free. The Lotto Rollover Levy working below illustrates a typical 7 week period:

Lotto Rollover Levy (Example)

Timeline:	Status:	Prize Fund:	Tax Rate:	Tax Yield:	Rollover:	Prize Payout:
Week x ₁	No Winner	€1,000,000	10%	€100,000	€900,000	-
Week x ₂	No Winner	€1,900,000	10%	€190,000	€1,710,000	-
Week x ₃	No Winner	€2,710,000	10%	€271,000	€2,439,000	-
Week x ₄	No Winner	€3,439,000	10%	€343,900	€3,095,100	-
Week x ₅	No Winner	€4,095,100	10%	€409,510	€3,685,590	-
Week x ₆	Winner	€4,685,590	EXEMPT	-	-	€4,685,590
Week x ₇	No Winner	€1,000,000	10%	€100,000	€900,000	-

€1,414,410

¹⁰ National Lottery Mission: <http://www.lotto.ie/About/>

¹¹ US Lottery Taxes: <http://www.homepokergames.com/lotterytax.php>

Water Consumption Tax

...cost flow control on tap

Aim:

To distribute the burden of maintenance costs equitably through society

Proposal:

“More than a billion people worldwide do not have access to adequate supplies of safe water, and less than 10% of the world's population receives a treated water supply”¹²

We believe that, introducing a water tax will help to instill a sense of responsibility among consumers. We are the witnesses of a global change which has and will affect the world water supply. Ireland will not be an exception either. “This is not about asking people to pay more for water per se; it is about asking people to pay for the water they use”¹³

- Introduced at National level. A fixed annually tax rate at €100 per household per annum.
- Introduced at local level thus the tax goes into the local budget.
- Introduced by household size, in order to be fair towards every Irish citizen.
- Based on consumption, meters will have to be installed in the long term. This will be a once off expense.

¹²David Brown, chief executive of the institution of Chemical Engineers, available:
<http://news.bbc.co.uk/2/hi/science/nature/6943956.stm>

¹³ <http://news.bbc.co.uk/2/hi/science/nature/6943956.stm>

(Data from CSO)

Dublin Area:	Permanent households	Temporary households	Sub Total
Dublin County	190,711	273	190,984
Dun Laoghaire Rathdown	68,375	37	68,412
Fingal	80,085	317	80,402
South Dublin	80,358	273	80,631
			<u>420,429</u>

· 420,429 * €100 per household = €42,042,900 generated alone by County Dublin.

Calculations based on local level. County Dublin is taken as example and the figures are according to CSO for 2006 statistics. If introduced at State level the following outcome is expected:

Total number of household = permanent + temporary households

- Total number of households = 1,462,296 + 7,225 = 1,469,521
- 1,469,521 * €100 = € 146952100 generated to the exchequer every year.

We believe that, "Appropriate pricing for water use will encourage consumers to take a more sensible and considered approach to water consumption and help us to reinforce the crucial three R's: reduce, reuse, recycle"¹²

Remuneration Alignment Tax

...it's a RAT trap, and you've been caught!

Aim:

To restore confidence in our banking system.

Proposal:

The Remuneration Alignment Tax (RAT) is a proposed 90% tax on the bonus element of remuneration packages paid out to Directors, Managers and Staff of the financial institutions engaged in the NAMA scheme. The tax is designed to align the strategies of those institutions with the interests of society.

In recent times, the members of these institutions have been in receipt of exorbitant bonuses that induced and rewarded behavior which ultimately compromised the social and economic security of the state. We believe that taxation can help prevent this situation from reoccurring in the future.

The RAT tax is based on the introduction of a 'Balanced Scorecard'¹⁴, which is a powerful method of articulating and communicating strategic objectives and performance measurements throughout an organization. The Government will design the scorecard and set out all objectives, measurement criteria and targets. These will apply to all institutions in receipt of NAMA funding. If any institution fails to meet all targets on the scorecard, the RAT tax will be activated and any bonuses paid out during the period will be subject to a 90% tax. If the institution meets or exceeds the targets they will be exempt from the tax.

A similar tax was passed in the US House¹⁵ of Congress last March, the law will tax any income of over \$250,000 at 90% in the firms that received over \$5,000,000 in bailout money. However, this seems more punitive than preventative. We believe that in the Irish case, strategy alignment and performance management that rewards conformance is more appropriate.

¹⁴ What is the Balanced Scorecard:
<http://www.balancedscorecard.org/BSCResources/AbouttheBalancedScorecard/tabid/55/Default.aspx>

¹⁵ House approves 90% tax on bonuses after bailouts:
<http://www.nytimes.com/2009/03/20/business/20bailout.html>

Below is an example of the scorecard that will form the basis of the RAT tax. Again, there is considerable scope for variation in the objectives, measurements and targets:

RAT Scorecard			Financial Institution X_1	Financial Institution X_2	Financial Institution X_3
Financial Objective: To maintain a sustainable level of risk within the financial structure of the institution	Measurement: % level of non performing assets	Target: 0.5%	✓	✓	✗
Customer Objective: To redistribute NAMA funding to customers	Measurement: € amount of credit made available to SMEs	Target: €5 Billion	✓	✗	✗
Internal Objective: To improve the transparency and quality of decision making and reporting	Measurement: Clearly defined process maps	Target: Accountability for decision making at all levels of the institution	✓	✓	✗
Learning Objective: To improve risk management and ethical awareness	Measurement: % pass rate of Directors, Management and Staff on mandatory risk management and ethical awareness educational courses	Target: 100%	✓	✗	✗
			EXEMPT	RAT	RAT

Conclusion

Throughout the development of our fantasy budget, we were mindful of the need to nurture conditions favourable for a sustainable long term economic recovery. Ireland is in a prime position to take centre stage in the 'Green Revolution' and by highlighting policies regarding energy consumption in our tax system we can begin to create the market conditions that will attract large scale R & D in this area to the island. For this to happen though, we need responsible and ethical financial institutions that will provide economic stability, this issue has also been targeted.

The equitable distribution of equity, to coin an awkward phrase, is also paramount in these uncertain times. Taxpayers should feel that the system views all citizens equally, and does not favour the wealthy over the poor or the Banker over the Bin man. The only way to negate the momentum of this perception is by offering a completely transparent system that provides absolute clarity in the accumulation, allocation and administration of our tax contributions, indeed, if Adam Smith could call us from the grave he'd probably be signalling frantically for us to include 'Transparency' as a fifth canon of taxation.

To conclude, we believe our tax system is the last line of defence against the full brunt of economic turmoil, and while it can't be used to 'tax our way out of recession', it *will* offer us a sound platform from which we can spearhead our collective response to the challenges our society faces..

For the Citizen.

For Ireland.

References

1 Directive 2002/91/EC On the energy performance of buildings:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32002L0091:EN:HTML>

2 Building energy rating chart: <http://www.energyrating.ie/chart.html>

3 <http://www.irishtimes.com/>

4 <http://www.irishtimes.com/newspaper/ireland/2009/0313/1224242799199.html>

5 http://www.epa.ie/downloads/pubs/air/airemissions/GHG_UN_2007_Final_150409.pdf

6 http://www.epa.ie/downloads/pubs/air/airemissions/GHG_UN_2007_Final_150409.pdf

7 <http://www.cso.ie/newsevents/documents/enviracc.pdf>

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9 <http://www.epa.ie/whatwedo/ETU/>

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14 What is the Balanced Scorecard:

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